WAR AND LOMBARD STREET

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BY

HARTLEY WITHERS

"Wise Venturing is the most commendable Part of human Prudence.

It is the upper Story of Prudence, whereas perpetual caution is a kind of underground Wisdom that doth not care to see the Light."

GEORGE SAVILE, Marquess of Halifax.

SECOND IMPRESSION.

LONDON

SMITH, ELDER & CO., 15, WATERLOO PLACE

1915

PRINTED BY
WILLIAM CLOWES AND SONS, LIMITED
LONDON AND BECCLES

PREFACE

To give a full account of all that happened in the City last July and August, is a task for some one who is plentifully endowed with leisure. I only produce this brief outline, because there is one good reason for trying to make the meaning of these events clear at once. This is, that they gave a wonderful proof of the enormous strength of England's monetary power, and a full recognition of this strength may be useful now.

I have to thank my old friend and former colleague, Mr. J. F. Stone, for valuable help with tables of prices and bullion movements.

HARTLEY WITHERS.

6, Linden Gardens,
Dec., 1914.

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CHAPTER I

THE MORATORIUM

It came upon us like a thunderbolt from a clear sky. At the end of July, 1914, any citizen of London who was asked what a moratorium meant would probably have answered that there was not such a word. Possibly he might have said that it was a large extinct woolly beast with big tusks. If he was exceptionally well-informed in matters of finance he would have replied that it was some sort of device used in economically backward countries for blurring the distinction between *meum* and *tuum*. On the second of August we had a moratorium on bills of exchange. On the sixth of August we had a general moratorium.

The preceding events were as follows. On

Friday, July 24, Austria sent its ultimatum to Servia. On Saturday, July 25, there was something very like panic on the London Stock Exchange and the Continental Bourses. At the beginning of the next week the foreign exchanges began a series of erratic and unprecedented movements which ended in breakdown. On Thursday, July 30, the Bank of England's rate was raised from 3 per cent. to 4 per cent., and on July 31 it was multiplied by 2, jumping from 4 per cent. to 8 per cent. On that day, July 31, some of the other banks were refusing to pay out gold to their customers, and making them take payment in Bank of England notes. Consequently there was a long string of people, wanting money for the holidays, waiting to cash notes at the Bank of England. On Saturday, August 1, the Bank rate went up to 10 per cent., and the string of people waiting to cash notes at the Bank of England was still watched by an amused crowd from the steps of the Royal Exchange. All this happened before a shot had been fired on the Continent, and before it was even certain that England would go to war at all. Then came Sunday

and Bank Holiday, and war, and then three more days of Bank Holiday and then the general moratorium.

It was an unpleasant string of surprises, but it was not brought about by any internal weakness in the English banking system. The fury of the tempest was such that no credit system could possibly have stood up against it. In fact, as will be shown, the chief reason for the suddenness and fulness of the blow that fell on London was nothing else but her own overwhelming strength. She was so strong and so lonely in her strength that her strength overcame her. She held the rest of the world in fee with so mighty a grip that when she said to the rest of the world, "Please pay what you owe me," the world could only gasp out, "But how can I pay you if you don't lend me the wherewithal?" If there had been any rival who could have taken London's mantle from her shoulders, and come forward as the provider of credit, London could then have called in her debts. But there was none. The machinery of credit broke down in both hemispheres, and London, as its centre, had to be

given time to arrange matters under the new conditions.

After all, you cannot have credit without civilization, and at the beginning of last August civilization went into the hands of a Receiver, the God of Battles, who will, in due course, bring forth his scheme of reconstruction. When the five chief nations of Europe turn their attention from production to destruction, it is idle to expect any system of credit to go unscathed. Credit depends on the assumption that goods produced will come to market and be sold and that securities that are based on the earning power of production will fetch a price on the exchanges of the world. War, on the smallest scale, weakens this assumption with respect to certain goods and certain securities; if its scale is big enough it makes the assumption so precarious that credit is shaken to its base.

A moratorium may be defined as an arrangement under which it is legally enacted that creditors cannot for a certain specified time claim payment of what is due to them. It postpones the dates on which debts have to be

met. It may be general or special. If special it applies only to certain classes of debts. If general, it applies to all debts, except such as are specially exempted from its provisions. A general moratorium was decreed in England.

Before we can hazard any opinion as to whether this was necessary we shall have to see what happened to credit in England owing to the war. In order to do so we shall have to go through a good deal of explanation of the manner in which the machinery of credit works in normal times. Much of this exposition will seem unnecessary and tedious to those who already know all about it. But as it is very important that the effects of war on finance should be brought home to many who would never have troubled about our credit system if the war had not happened to upset it, this elementary explanation is an unavoidable evil.

Not long ago I was asked to address a society in Cambridge on the subject of what would happen to our credit system if we were engaged in a Continental war. I began by saying that the only thing that one could be sure about was that what happened would be something that

nobody had foreseen. With this proviso I ventured to prophesy that it ought to be possible for England to go into such a war without any very serious upset of our credit system, because any internal trouble we could deal with in the good old-fashioned way by suspending the Bank Act, and external trouble, in the shape of heavy demands on our store of gold, was not likely to occur, because, owing to the strength of our position as a great creditor country, we should only have to call on the rest of the world to pay what it owed, and all the exchanges would at once move in our favour. This latter estimate was, as events proved, so aggressively true that it falsified itself. The exchanges went in our favour with such a mighty rush that the machinery of exchange broke down, and nobody could buy a bill on London.

These mysterious sayings about suspending the Bank Act and turning the exchanges in our favour will be explained later on. First of all let us get the internal question clear, that is, the effect of war on our own dealings with one another and our bankers.

CHAPTER II

THE INTERNAL PROBLEM

WHEN war comes, or is expected, the public is apt to lose its head and do things that are stupid and even wicked, under the influence of unreasoning fear, and because they think that something dreadful is going to happen. And on this occasion the portents that preceded the war were startling enough to excuse a good deal. The only really vicious thing that the British public did was to rush to its provision dealers and buy vast supplies of food, just as if there was no such thing as the British Fleet, and as if famine were an inevitable item in the programme. This disease did not last long, and was largely confined to a small section of the well-to-do classes, who ought to have known better. It caused an ugly upward rush in food prices which would have inflicted great hardship on the poor if it had continued, but luckily the evil was stayed.

(2) Another thing that is likely to happen when the public is disturbed by a threat of war is that folk take it into their heads to withdraw money from their banks, and if only enough people follow this stupid practice, of taking money home and hoarding it, the strongest banks come to the end of their supply of cash, and then it becomes necessary to lend them a fresh stock. To provide a fresh stock of cash for bankers, the old-fashioned device was a suspension of the Bank Act. The Bank Act is the Act which restricted the right of the Bank of England to issue notes beyond a certain amount (which is now, £18,450,000) except against gold held in its vaults. Above that limit every £5 note must have £5 worth of gold behind it. In ordinary times the number of Bank of England notes that can be issued is in these days a matter of rather secondary importance, since they are little used as currency (except, I am told, by bookmakers on racecourses), and are held chiefly by the other banks as a cash reserve. But when times are not ordinary it becomes necessary to increase the number of Bank notes, in the first place because they are wanted to take

the place of the cash that the frightened public has taken out and hoarded, and in the second because in times of panic many people refuse to accept payment in cheques, which are now the usual currency of internal commerce. They refuse cheques because they begin to doubt the solvency of the men who draw them and of the banks on which they are drawn. If my neighbour owes me £10 and gives me a piece of paper signed by himself telling a bank to pay me £10, I run two risks by accepting it in payment. There is the risk that my neighbour may have no money at the bank, and that his cheque may be returned to me with an inscription on it, signifying that there are no funds to his credit, or it is possible that by the time his cheque is presented the bank which it orders to pay me £10 may have closed its doors.

In ordinary times we take these risks with cheerful confidence because these uncomfortable things do not happen. But when war is in the air some of us begin to fear that they may happen, and so there is always the chance that the Bank Act may have to be suspended

to provide money for all the transactions that used to be settled by cheque. For the Bank of England note is "legal tender," and so no one can refuse to accept it in payment of a debt.

(3) This possibility, that the Bank Act might have to be suspended, had a most unfortunate effect. It was an indirect cause of the advance in the Bank rate, already referred to as one of the startling events that heralded the moratorium, from 3 to 10 per cent. in three days. It should be explained that the Bank's official rate of discount, commonly called "Bank rate," is the rate at which it will buy bills of exchange (an expression which will have to be made clear later), and is a standard rate which has an important effect, especially in bad times, on the charge that all other lenders make to borrowers for the use of money. It is very unusual for Bank rate to be raised by more than 1 per cent. at a time, or on any day but Thursday. A rise in Bank rate is always a danger signal, showing that money is dearer, and all the people who work with borrowed funds will have to pay more for them. And a skyrocket signal like a jump from 4 per cent. to 8 per cent. in one day,

and that day a Friday, was quite unheard of and was a most untimely shock to the public's nerves. Next day, of course, the papers were all full of this new and strange portent. Bank rate became first-class "copy." Instead of its movements being hidden in the dark mysteries of the City page, it came right into the middle of the paper with thunder-claps of head-lines to herald it, and many members of the public, who had never heard of Bank rate before, became aware that something unprecedented and dire had happened in the world of finance.

It was most unfortunate, but gossip in the City says that it was not the Bank's fault. The story goes that when it became evident that the suspension of the Bank Act might have to be asked for, the Bank inquired from the Treasury whether it was ready to go through the usual form of giving the Bank a letter of indemnity, promising that Parliament would be asked to condone the Bank's breach of the law by issuing more notes than it is allowed to by the restrictions of the Act; and that it was thereupon informed that the Bank Act had never before been suspended except when Bank

rate stood at 10 per cent. Thus in effect the Treasury, merely for the sake of blindly following a mouldy old precedent, practically told the Bank that the Act could not be suspended until Bank rate stood at 10 per cent. And so, if this story be correct, the Bank was forced to raise its rate from 4 per cent. to 8 per cent. on the Friday, and from 8 per cent. to 10 per cent. on the Saturday: it need hardly be said that such a movement, at that time, was quite ineffective for all the purposes for which Bank rate is usually raised, while its evil effects have already been described.

At the same time some of the ordinary joint stock banks, with which the public keeps its money, ignored or forgot the old banking maxim that the only way in which to stop a run is to meet it fearlessly, and that the only thing that it is safe to say to the public when it comes and asks for its money is, "How will you take it —notes or gold?" On Friday, July 31, the public was asking for more cash from its bankers than its genuine need for currency made necessary. It was just before the August Bank Holiday, a time when nearly all the world

of bank depositors is going into the country for a day or two, and a very large number of people are going away for weeks with their families. Hence it follows that a big demand for cash for holiday purposes is then a normal event, and it is difficult to tell how much of the demand was abnormal that day. My own experience was that I went to my bank and took out a few sovereigns to pay domestic wages, and go away over the Bank Holiday, and found no unusual crowd at the paying desks, and got my sovereigns without question or difficulty. But some of the banks were refusing to cash their customers' cheques in gold, and were only parting with notes and silver, and telling their customers to take the notes to the Bank of England, and there change them into sovereigns.

By so doing they were acting entirely within their rights. Bank of England notes (and silver up to £2) being legal tender, any debtor who is asked for money can give Bank notes and silver up to £2 in payment. But the effect produced by this action on the part of the banks was extremely unfortunate. The banks kept back gold just when the public needed it for holiday

purposes, and so actually demonstrated to the public that hoarding gold was a policy adopted by its bankers, who ought to know what they were doing in such matters, and so to be imitated by the public. It was asking for trouble, and it could not do the banks any good. They could not refuse to part with cash, and whether they parted with Bank notes or with gold could not make the smallest difference to them, as long as the convertibility of the Bank note—that is, the power to cash notes at the Bank of England—remained. It is incredible that even before the run, such as it was, had lasted a day, they could have been actually short of gold. Their gold they held as a reserve to be used in the day of trouble, not to be sat on just when it was wanted. After all that we had heard in recent years about the increased reserves that the banks were holding in their own tills, their refusal to part with gold was a melancholy surprise. The immediate result was a crowd of people at the Bank of England, naturally wanting gold for the holidays, since notes are not always easy to change in out of the way places, and waiting to get sovereigns for the

notes which were all that their banks would give them. The crowd at the Bank of England was soon bruited abroad as a novel spectacle, and it was watched on that dreary afternoon by a throng of amused onlookers, mostly straw-hatted and in holiday attire, gathered on the steps of the Royal Exchange.

It need not be said that the Bank of England shovelled out sovereigns as fast as it could, as in law and duty bound ; but it was unfortunate that structural alterations added to its difficulty in dealing with its crowd of applicants for gold. Next day some of the papers gave a good deal of space to Friday's events in the City, and by this time the public was naturally frightened, and was unmistakably showing an abnormal appetite for cash. But there were only a few short hours of business, and then we all went away for our holidays, to come back to a new strange world, in which many of the old lights that guided us had been put out and the red glare of war had taken their place.

Having seen that the action of the banks in withholding gold was ill-timed and unfortunate, let us now try to see why certain members of

a very level-headed body should have been led into it. Before any one casts stones of criticism at the banks, let him remember that a chain of circumstances had produced the one result that is most terrifying to bankers, that is to say, had locked up their assets and made them unrealizable.

If you look at any bank balance-sheet,* you will see on the left-hand side an item, current and deposit accounts, representing the sum (in the case of some banks running into more than 100 millions) that it owes to its customers and has to pay on demand,

* Here is a specimen, founded on an actual example, but slightly simplified :—

Liabilities	£	Assets	£
Paid-up Capital ...	3,500,000	Cash in hand and at Bank of England	14,000,000
Reserves... ...	4,250,000	Do. at call and short notice ...	12,000,000
Current and Deposit a/c	85,250,000	Bills discounted	16,000,000
Circular Notes, etc.	3,000,000	Investments ...	9,000,000
Acceptances ...	7,000,000	Advances	44,000,000
Profit and Loss	500,000	Liability of Customers for Acceptances	7,000,000
		Bank Premises ...	1,500,000
	£103,500,000		£103,500,000

in the case of current accounts, or at a few days' notice (as a rule) in the case of deposit accounts. This is the chief liability of the banks, the immediate meeting of which is essential to their existence. To meet it they hold the assets set out on the right-hand side—cash in hand and at the Bank of England, cash at call or short notice, loans and advances, bills discounted, and investments. All these are in normal times more or less liquid assets, that is, assets that are either cash or can be turned into cash, or in the case of loans are payable at a more or less near date by customers who are believed to be good for their engagements. But in the week that preceded those two evil days before the holiday, things had happened which made a large part of the assets of the banks unrealizable or of doubtful value. This being so, the very worst possible horror that a banker can dream in his very worst possible nightmare then actually stared the banks in the face. There were their liabilities just as usual, which had to be met if the banks were to stand upright. If the public asked for its money it had to be paid, and the public was already

showing signs of wanting its money. And on the other side of the balance-sheet was a large proportion of assets which in ordinary times a bank was justified in regarding as good, but which at that moment it knew to be for practical purposes useless, while others were of problematical value. Any one who under such circumstances expects a banker to maintain his usual equanimity is asking him to be something rather more than human.

What happened to turn these liquid assets into unrealizable phantoms was this. In the first place the Stock Exchange, flooded day after day by a stream of sales from the Continent, had been forced to close. The continual fall in prices made the position of stockbrokers who had borrowed from the banks and others money wherewith to carry over securities, highly precarious. Because the securities on which these loans were secured dwindled daily in value with alarming rapidity,* and so the brokers were

* The *Bankers' Magazine* for September showed that the 387 representative securities whose movements it periodically records, marked in the ten days, July 20 to 30, an average fall of 5·6 per cent.

The following table shows a few of the most striking

continually liable to be asked to produce more and more security to maintain the margin on their loans. If they had borrowed, for example, £100,000 on the security of stocks worth £110,000, showing a margin of 10 per cent., and there was an all-round fall of 3 points in these stocks, they might have to find £3000 worth more securities so as to keep the margin unimpaired. So many brokers found themselves embarrassed by the headlong nature of the fall in prices during the week before the House

movements that happened in the last week in which Stock Exchange business was possible:—

	July 23.	July 30.	Fall.
Consols (Money)	$75\frac{1}{16}$	$69\frac{1}{2}$	$5\frac{9}{16}$
Sth. Eastern Ry. Dfd. ...	$40\frac{7}{8}$	$31\frac{1}{2}$	$9\frac{3}{8}$
Canadian Pacific Ry. ...	$188\frac{3}{4}$	$157\frac{1}{2}$	$31\frac{1}{4}$
G. Trunk Ry. 3rd Pref. ...	33	26	7
Union Pacific Railroad ...	$160\frac{7}{8}$	$114\frac{3}{8}$ *	$15\frac{1}{4}$
Brazil Ry. Common ...	24	20	4
Mexican Ry. Ord. ...	34	30	4
Brazil 5 per cent. 1913 ...	$83\frac{1}{4}$	72	$11\frac{1}{4}$
Peru. Corp. Pref.	$37\frac{1}{4}$	28	$9\frac{1}{4}$
Austrian Notes	95	$82\frac{1}{2}$	$12\frac{1}{2}$
Hungary 4 per cent. ...	78	$73\frac{1}{2}$	$4\frac{1}{2}$
Royal Dutch Oil	46	41	5
Rand Mines	$5\frac{7}{8}$	$4\frac{13}{16}$	$1\frac{1}{16}$
De Beers Diamond Dfd. ...	$15\frac{3}{4}$	$13\frac{1}{2}$	$2\frac{1}{4}$
Rio Tinto Copper	$67\frac{1}{8}$	$53\frac{1}{2}$	$13\frac{5}{8}$

* Ex "rights" valued at $31\frac{1}{4}$.

closed, that, it is said, the Committee was obliged to close lest an even worse thing should happen.

Such a thing had never been known since the Stock Exchange was established. Throughout the Napoleonic war there was a market in which securities could be sold at a price. But then, of course, there was no telegraphic communication with the Continent and the Stock Exchange was a domestic affair in which Englishmen dealt in a few securities, chiefly British Government funds. There was no international market in Canadian Pacifics and American shares and foreign bonds and South African shares, and no crowd of Continental holders to throw them at Capel Court to be sold at any price that they would fetch. This time there were all these new features in the situation, and the Stock Exchange was forced to close. So, it may be added, was New York, though New York had no threat before it of being involved in the war, and though New York deals only in its own securities, American railroads, industrials, etc.*

* A few foreign securities are quoted in New York, but dealings in them are comparatively rare, business being practically confined to domestic investments.

Yet the flood of these that was poured on it from the Continent and England was more than it could swallow and it closed as soon as it heard that London had done so.

The effect of the closing of the Stock Exchange on the banks was twofold. In the first place it locked up all their investments and made them unsaleable. For the purposes of providing cash if depositors wanted it, the banks' investments were, to a great extent, waste paper for the time being. Their British Government securities might perhaps have been used to borrow on from the Bank of England, but borrowing from the Bank of England is a process that the other banks avoid until the last possible moment, and, moreover, they nowadays hold a large number of investments which are not British Government securities. (2) In the second place, it prevented the banks from selling the stocks and bonds that they held as "collateral security" against loans to stockbrokers and other customers. When stock is held as collateral security against a loan, and the borrower cannot pay the loan off, the bank can, in normal circumstances, sell

the stock and get at least part of its money back. With the Stock Exchange closed this is impossible, and thus the banks found themselves with a large part of their assets solidified and useless.

Another item in the visitation that they suffered arose from the fact that in the last days of July the whole machinery of foreign exchange had broken down (how and why will be shown later), and the meaning of this uncomfortable event was that foreigners who owed money to England could not with the best will in the world send it, because the ordinary means of doing so no longer existed. Now we have seen that among the assets of a bank bills of exchange hold an important place. In fact it may be said that in times when the machinery of finance is running smoothly, a bill of exchange is reckoned as the very best asset that a bank could possibly hold. Because every bill of exchange bears the signature of an "acceptor," who thereby promises to meet it at a certain date. Therefore, a bill does not have to be sold to be turned into cash, it only has to be held till its due date and the acceptor has to

pay it; in the meantime if immediate cash is required a bill can, in normal times, always be sold—or "discounted" as it is called —very readily. The acceptors of the bills chiefly held by the banks are the great private finance houses of London, and the banks themselves, who do a large part of this business of acceptance, which will be made clearer in the next chapter.

For the present it must suffice to say that the breakdown of exchange and the consequent inability of foreign debtors to remit to England, made the value of bills of exchange a much more doubtful question than it had ever seemed to be before. The private accepting houses and the banks were in the habit of accepting bills in the expectation that correspondents abroad would remit money to them to meet the bills when they fell due. If these correspondents abroad were unable to remit, the accepting houses and the banks would have to meet the bills accepted by them out of their own assets. We have already seen that many of the assets of the banks were locked up and unrealizable, and those of many of the accepting houses were likely to be in a very similar plight. In the

matter of bills of exchange the banks were thus hit on both sides of their balance-sheets. As large holders of bills, they found that one of their most valued assets had become greatly deteriorated in appearance, while as large acceptors of bills, accepted on behalf of customers both at home and abroad, they found themselves likely to be called on to pay bills out of their own weakened assets, instead of being able to rely on the promptitude of their customers in finding the money before the due date of the bill.*

It was an appalling position for a banker to find himself in, with the chance before him that many of his customers would want their money, and on the other hand the knowledge that all the Stock Exchange securities that he held either as investments or as collateral were unsaleable; that the bills of exchange in his portfolio might or might not be met at maturity, and that the bills of exchange which he had

* The *Economist* of August 15 stated that the acceptances of eighteen of the principal banks on June 30, 1914, amounted to 36½ millions.

In the specimen bank balance-sheet given on p. 16, note, it will be seen that there is a liability of 7 millions on acceptances, with a corresponding asset consisting of the liability of the bank's customers.

himself promised to pay might have to be met out of his own resources.

Two other assets he had: his cash in hand and at the Bank of England (with which all the chief banks keep a balance) and his loans to the bill-brokers. For years it has been a commonplace criticism of English banking, voiced chiefly by the bankers themselves, that the banks have not kept a large enough store of cash in hand and at the Bank of England. There can be little doubt that this weakness, arising from the fact that years of jog-trot prosperity had tempted the banks to build too big a fabric of credit on too small a foundation of cash, made it more difficult for them to face the crisis at the end of July. I have, however, heard the contrary view expressed. With so many of their reputedly liquid assets suddenly frozen, it may be maintained that even if they had held twice as much cash as they had, they would still have had plenty of justification for feeling uncomfortable. Nevertheless it cannot be denied that a large holding of cash behind him is a very present help to a banker in time of trouble, and helps him to face it with the courage

which is his only hope of salvation, and with the serene coolness which meets a run by free and ready payment.

Loans to bill brokers form an asset which is not separately displayed in bank balance-sheets, but is a very important one. It is included in the heading "cash at call and short notice," and it means money lent to a number of firms and companies whose business consists chiefly in dealing in bills of exchange. They buy these bills as they come in from all parts of the world, and pay for them with money that they borrow chiefly from the banks. They make their profit out of the difference between the rate of discount at which they buy the bills, and the rate at which they borrow from the banks "at call and short notice," that is from day to day or for short periods, usually a week. The bills that they buy they usually sell to the banks, keeping a stock of them and selling those which suit the banker's fancy in the matter of date and currency. The bill brokers are thus very largely in the hands of the banks, which buy bills from them or lend them the money to carry their bills. When there is pressure for money the

banks call in their loans from the bill brokers, who then are usually forced to apply to the Bank of England and either sell bills to it at Bank rate or borrow money from it at a rate which is usually ½ per cent. above Bank rate. With the money that the bill brokers thus raise from the Bank of England they pay off their loans from the banks, and the banks are thus easily enabled to increase their holding of cash at the Bank of England. The system works very smoothly and easily in ordinary times, and at Christmas and the end of the year it is usual for the Bank of England to be called on to create, by this method of a mere entry in its books to the credit of the banks, some 25 millions or so of new "cash," most of which is wanted for ornamental purposes in balance sheets. In the last two weeks of 1913, the Bank of England's holding of "other securities" rose by over 25 millions, this increase more or less representing its advances to bill brokers and others; nearly the whole of this amount went to swell the "other deposits" at the Bank of England which contain the balances of the other banks.

In the last week of July some of the banks are said to have dealt very ruthlessly with the bill brokers, pulling in money from them with a violent jerk, and driving them to the Bank of England to borrow much faster than was pleasant to the bill brokers or agreeable to the Bank of England. Bill brokers, however, who in good times borrow from the banks at specially low rates, because money lent to them is supposed to be available whenever it is wanted, have little right to complain if money is called in from them quickly in times of crisis. The Bank of England's weekly return published on July 30 showed that during the week that ended on July 29 there was an increase in the Bank's holding of "other securities" of no less than 13½ millions. It does not follow that the whole of this amount had been borrowed by unfortunate bill brokers driven to the Bank of England by the other banks, but it is safe to guess that a large part of the increase was thus brought about. In the last days of the week the movement went still faster, until at last on the Saturday—according to the story of the bill brokers—the Bank

of England tried to force the other banks to stay this process by refusing to carry out its part of it, and lend to the bill brokers the sums that the banks called in from them. The experiences of the bill brokers, thus crushed between the upper and nether millstones of finance, were extraordinarily unpleasant; but the Bank of England at last relented. During the last three days before the Bank Holiday it increased its holding of "other securities" by 18 millions.

Such then was the internal position of our credit machine at the beginning of August. The public was running on the banks. Some of the banks were refusing to pay their customers in gold, and so causing a run on the Bank of England by the public which took to it, to be turned into gold, the notes that the banks handed out. The banks were also calling in large amounts from the bill brokers, who had to borrow them from the Bank of England. During the two weeks that ended on August 5, or rather during that part of them which was not covered by the prolonged Bank Holiday, the Bank of England added 31½ millions to its holding of "other securities," representing

roughly the amount that it had to lend to borrowers who had had money called in by their bankers, and had lost 16 millions in notes and sovereigns that had been taken from it for circulation, or hoarding, at home, and its reserve, which has seldom in recent years been allowed to fall below 20 millions, had sunk below 10 millions.

It was not a pleasant situation, but did it need a banking moratorium to mend it? In asking this question I must not be taken as criticizing the action of those who handled the crisis. The tornado burst so suddenly that the officers of the ship could not be expected to take in a little sail and wait to see whether she could bear the rest of her canvas. They had to make everything snug as fast as possible. I only question whether a banking moratorium was necessary in order to suggest that if such a state of things should occur again, those who have to meet it might try other measures first.

Our forefathers' remedy for an internal crisis, which led to hoarding and a consequent scarcity of currency, was a suspension of the Bank Act, which, as explained above, restricts

the amount of notes that the Bank of England is allowed to issue. Is there any reason to suppose that this remedy would have failed, as far as the internal crisis was concerned, this time? The trouble was, that the public was alarmed about the outlook, and, partly owing to the lead given it by some of the banks, was hoarding money. This evil might have been done away with by the prompt action of the Government in stating publicly, as was done by Mr. Lloyd George in Parliament, that the Government was taking immediate steps to provide additional currency, and that any one who hoarded money was guilty of wicked cowardice. This clearly showed that the Government was behind the banks, and there is good reason to believe that the position of the banks would thereby have been secured without the shelter of a moratorium. If the run had continued for a few days the banks could have met it with the new currency provided, as soon as it was ready.

"There's the rub." The currency was not ready. It is easy to see now that it ought to have been. If it had been, it might never have

been wanted. The fleet was ready, and the expeditionary force was ready. The financial machinery was not. Part of the machinery was a supply of notes to take the place of our gold currency, if the evil disease of hoarding should break out, as was likely. Consequently, whether the evil was met by a suspension of the Bank Act, or by an issue of Government notes, a supply of £1 and 10*s*. notes ought to have been in existence. I have good authority for stating that bankers had long ago represented to the powers that be, that a store of emergency currency would be needed if England were involved in a great war.

What happened was that the Government suspended the Bank Act—the Currency and Bank Notes Act, August 6, 1914, says that the "governor and company of the Bank of England . . . may so far as temporarily authorized by the Treasury, and subject to any conditions attached to that authority, issue notes in excess of any limit fixed by law" *—and then made this suspension unnecessary by issuing notes itself. The Bank of England did not avail

* See Appendix III A.

itself of the suspension, but a new currency made its appearance, consisting of £1 notes, sometimes called "Bradburys" from the name of the distinguished Treasury official whose name they bear, and 10*s.* notes, scarlet in colour, which I have heard referred to as "pink 'uns." These notes were issued to the banks, the amount that they might take being limited to 20 per cent. of their liabilities on deposit and current accounts. This limit gave the banks the right to take about 225 millions. They actually took less than 13 millions. These figures were given by Mr. Lloyd George in his speech in Parliament on November 27. "The mere knowledge," he added, "of these currency facilities being available gave confidence." The notes were issued in the form of an advance by the Treasury to the banks that took them, bearing interest at the current Bank rate, and secured by a floating charge on the banks' assets.* Postal orders were made legal tender for the time being.

It was a new departure for the British Government to issue paper money. In principle there

* See Appendix III B.

is no objection, under due regulation and restriction. If the Government provides coined currency, why not paper—as long as it is convertible on demand into gold, as this new currency is? Nevertheless, it seems to be a needless break with tradition, the reasons for which are obscure to the outer world, and, as will be shown later, Government note issues carry special dangers and temptations with them. It is probable that new Bank of England notes could have been more quickly produced—at least the time spent in designing the Treasury notes would have been saved. And time was all-important. Until a sufficient supply of the new currency was ready, it would not have been fair to expect the banks to open except under the protection of a moratorium. Even so there is something to be said for the view that a Bank Holiday, extended for a week or more until a sufficient supply of the new currency was printed, would have been better than allowing English banking to fall under a moratorium.

For any other debtors, a moratorium under stress of war would have involved no loss of

dignity. But the belief that, whatever happened, English banking must and would, on any day when it is open for business, hand out legal-tender currency to any one who had a claim on it, was a thing worth cherishing, a flag that it was worth while to keep flying till the last possible moment. An extended Bank Holiday pending the provision of new currency, accompanied by the appeals that were made to the public by prominent men of both parties, and by the newspapers, might have kept it flying throughout the war.

As it was the flag was lowered by a proclamation of August 6 authorizing debtors to postpone the payment of any debt contracted before August 4 by one month, which was later extended for two more months.* Perhaps the objection to such a measure, as applied to our banks, is only a piece of sentimental pedantry. Certainly if there was an error it was in the right direction. It was better to make too sure than not to make sure enough, and it was fortunate that we had a Chancellor of the Exchequer who was tied and bound by little or no respect for

* See Appendix I B.

precedent, who knew little of the machinery of the City, knew that he knew little, and was ready to take advice and quick to act on it with a boldness that startled even those whom it benefited.

By these measures the banks were protected with a triple ring of trenches. They had a moratorium between them and their debt to their customers. The suspension of the Bank Act empowered the Bank of England to lend them an unlimited amount of Bank notes, though this power was never used. And new Treasury notes were available to an extent that was very much greater than was actually required.

The banks proceeded to rule a line across their customers' pass-books, and to exercise their own discretion as to meeting cheques drawn on them. Money that they had received on current account before August 4 implied a contract on their part to repay it on demand, and from this contract they were relieved for a month, by the Proclamation for Extending the Postponement of Payments. Most of them used their discretion wisely, and allowed customers to draw what

they wanted for ordinary purposes. A few made difficulties. A good deal of unmerited abuse was showered on the banks at this time because they did not give enterprising gentlemen with schemes for capturing German trade handsome overdrafts for building factories and buying machinery. Factories and machinery ought not to be financed by means of overdrafts at banks. All that the banks could be asked to do was to grant the usual banking facilities, perhaps a little more freely than usual. This most of them did.

The banks did not avail themselves of the subsequent extension of the moratorium for two more months. At the beginning of September they credited their customers again with the balances that were due to them on August 4, when their accounts were ruled off. Whether, having done so, they were or were not still protected by the moratorium in respect of these balances, is a point on which lawyers differ.

CHAPTER III

THE EXTERNAL PROBLEM

WE have seen that in many respects the internal problem that had to be faced by the London money market at the beginning of the war was an old enemy who had been faced and floored before. It took the form of a run on the banks and a disorganization of the currency system, and for both of these events there was plenty of precedent in history, though the scale on which the evil seemed likely to develop was bigger than anything that had ever been heard of, owing to the wonderful rapidity with which our banking machinery has grown in the course of the last century.

The external problem was a novelty, and demonstrated in a very remarkable manner how very true is the major premiss of the doctrine that Mr. Norman Angell has been hammering into us ever since the appearance of his first essay on the subject. This major

premiss is to the effect that modern nations are so closely knit together by the bonds of international finance that they cannot go to war without inflicting enormous damage on themselves as well as on one another. This statement, which nobody doubted, has been shown to be entirely true. The conclusion drawn from it, that since this is so there is no longer any reason for going to war, has been shown to be a mistake, since the certainty of enormous material damage has not prevented the five chief Powers of Europe from rushing in and fighting one another with might and main, regardless of the cost. The assumption, rather a libel on human nature, that one only has to prove that something does not pay in order to stop it, has been shown to be groundless.

The worst that can happen to a country's banking system on the outbreak of war is that, at the time when its home customers are likely to be troubling it with a run, external demands on its gold store may seriously weaken it. Attacked on both sides it may have to put up its shutters. This problem is evaded by most countries by arrangements which enable their

banking systems to refuse to part with their gold. It has, however, always been the pride and the boast of English banking that any one who can present a claim on an English bank will get it immediately and unquestionably turned into gold. As we have seen, the ordinary banks are not bound to pay out gold, but any one who has a cheque on them can turn it into notes, and then change the notes into sovereigns at the Bank of England. Consequently there was in some quarters a fear that if we were threatened with war a big foreign drain on our gold supply would be added to the other inconveniences of the situation, and a suggestion has been put forward from time to time that a war chest, to consist of a stack of gold, should be accumulated by the Government.

On the other hand, it seemed probable that, owing to the strength of England's position as the great moneylender of the world, the pull would be all the other way, and that other countries would have to remit such vast sums to us that the exchanges would be strongly in our favour, and that no drain on our gold store need therefore be feared. In fact, this

proved to be so emphatically the case that the exchanges went in our favour so violently that they broke the machinery.

But it is high time to make clear what is meant by the exchanges going in our favour. The exchange on London quoted in a foreign country means the price in that country's money which any one who wants to buy a pound sterling in London has to pay for it. The normal exchange on London in New York is $4.86\frac{2}{3}$ dollars to the pound. That is the price at which sterling drafts payable at sight can be got when the exchange is at par. A sterling draft is a bill of exchange for so many pounds sterling, and when it is payable at sight then, like the cheques that we draw in daily payments, it has to be paid at once on presentation.

Now the only reason why any one in New York should want to buy pounds in London is because he has payments to make on this side. He has money in hand in New York, but of course it is all in dollars, and he has to pay a debt in England, and in order to do so he must buy pounds in England with his dollars in New York, because his English creditor will,

naturally, only take payment in pounds. The reasons why he may have to pay a debt in England are manifold. He may be the New York banker to a great American railroad which has a large number of its bonds or shares held in England, and has to remit hither to pay interest or dividends; or he may be an importer of English goods which he sells in America and pays for in England, or he may be the American father of an English duchess who has to remit her dowry, or he may be an Irish peasant, working and earning wages in America and sending home money to his father to help him to pay his rent. All the hundreds of reasons which make Americans pay money to England make them want to buy English money in New York with American dollars.

This they do by buying bills of exchange on London at the current market price. These bills of exchange represent the claims on London that other Americans have to sell. The most obvious example is a bill of exchange drawn on an English cotton importer (or more probably on some great English financial house with whom the cotton importer has made the

necessary arrangements), by an American grower of cotton, or, more probably, an American cotton merchant who has bought cotton from the growers. The American cotton seller having sold cotton to England has a claim on England for so many pounds. He draws a bill on England, which will be in some such form as follows :—

> Pay on demand to me or order
> £10,000
> against 1000 bales of cotton per s.s. *Mayflower.*
> Jonathan P. Americanus.
>
> John Bull & Co.

In the right-hand corner he signs his own name, in the left-hand is the name of the London house on which the bill is drawn. He can then sell the bill to his bank in America for so many dollars, and so get his money. The bank sells the bill in New York at the market price current, which will vary according to the number of these claims on London that come to be sold, in relation to the demand for them, which depends, of course, on the amount required by those who have debts to pay in England. This variation in the supply of and demand for bills

on London in New York is considerable. At certain seasons, when America is shipping its cotton and other agricultural produce, and drawing bills on England against it, the claims on London that it has to sell are usually in excess of the demand for them. Then the price of English sovereigns, expressed in American dollars, goes down, and the exchange is said to move against London. At other seasons, when the large amounts have to be paid that America owes to England for interest, etc., then bills on London are competed for in New York, their price in dollars goes up and the exchange moves in favour of London. And so it seemed safe to expect that if England were threatened with a crisis due to war and called upon other countries for the large amounts that she continually lends them in time of peace, the exchanges would all go strongly in her favour, and there would be no fear of a run on her gold store from abroad.

But what has a favourable exchange to do with movements of gold? Just this. To take again the example of New York, any one with a bill on London for £1000 can, if he pleases, send

his bill to London, demand sovereigns for it, ship the gold to New York, and turn it into dollars there at what is called the mint par; so that if the sovereigns were full-weighted he would get 4866 dollars for his sovereigns less the cost of shipment and insurance and loss of interest on his money while it is afloat. These charges in normal times are reckoned at about 2½ cents to the pound, so that even in normal times £1000 taken in gold would only net about $4841 to the importer, while if the exchange were in London's favour he would be able to sell his bill on London for, say, $4885, and so it would obviously pay him much better to do so than to bring over gold from London.

If there were a chance of war, freight and insurance would be much higher than in normal times, and the loss on importing gold would be all the greater. Consequently there was good reason to expect that a threat of war would not cause a foreign run on London's gold, and this expectation was fully borne out. As soon as the trouble began to brew all the exchanges went strongly in favour of London, with the

single exception of the Paris exchange. The Paris exchange moved violently against London, because French bankers had large balances in London which they tried to take home, and so bills on London were offered so heavily in Paris that the price of them as expressed in francs fell from 25 f. 17 c. to 24 f. 50 c., and gold was shipped to Paris as fast as its transport and insurance could be arranged for.

It is also true that during the week before the war, sovereigns went abroad, in spite of the exchanges, to Egypt, Belgium, Gibraltar, Switzerland, "the Continent" (probably France), and Malta. These losses made up a respectable total, as the appended table shows :—

Outward movements of gold during the week before the war—

	£
France	1,762,000
Continent	847,000
Belgium	639,000
Egypt	565,000
Gibraltar	250,000
Malta	80,000
Switzerland	60,000
	£4,203,000

Out of this total, however, if the Continent

meant France, over 2½ millions went in accordance with the laws of exchange, and the £330,000 to Malta and Gibraltar went to British possessions. The other shipments, to Egypt, Belgium and Switzerland are, apparently, evidences of a foreign drain on England in spite of favourable exchanges. But it is more than probable that the beginning of war, with its high rates for freight and insurance, would have stopped these shipments without the moratorium.

Against these withdrawals London received large amounts from New York and from India,* so that, on balance, the strength of London's position with regard to its gold store was confirmed by experience. During the moratorium period, the Bank of England's stock of gold, including what it held in Canada and South Africa, was increased by 52½ millions through receipts from abroad.† No gold went abroad

* The gold from India was not actually imported, but released by the Secretary for India from a store that he holds in London, but it had exactly the same cause and effect as an import. Much of the American gold did not actually come to London, but was sent to Ottawa and there held on the Bank of England's account.

† See Appendix V.

from it during that period. It may be said that the moratorium stopped it; but without the moratorium it could not have gone as an exchange transaction, because the exchanges were strongly in our favour, except that for a time Amsterdam moved against us owing to our big purchases of Java sugar. It has been stated in bullion brokers' circulars and elsewhere that an embargo was placed on the export of gold. This was not so. Gold was made conditional contraband by proclamation dated August 4, but any one who could get it was otherwise free to ship it. And any one could have got it, who could have got Treasury notes or Bank of England notes, which were still convertible, being specially exempted from the moratorium.*

There were curious stories current at the beginning of August that the German banks had somehow helped themselves to a huge sum at the expense of the London money market just before the war, by calling in loans here and refusing to remit what they owed us. Certainly some of them called in loans from our Stock Exchange, just as our banks did, and the French

* See Appendix I B.

banks likewise. But the movement of the German exchange itself refutes the story that the Germans refused to pay what they owed London. The pressure to buy sterling in Berlin, on the part of people who were trying to pay London what they owed, was so great that the price of sovereigns expressed in marks rose from 20 m. 50 pf. to 20 m. 60 pf. and above. If they had been carrying out the nefarious operation with which gossip credited them, the movement in the exchange would inevitably have been the other way.* As far as I was able to get authentic information on the point, German bankers paid all debts that London called in as long as they could buy sterling. At a point their exchange broke down altogether like all the others.

So, far, then, as the question of a drain on our

* Since this was written, Sir William Plender, who was appointed by the Treasury as Controller of the German and Austrian banks in London, publicly stated (see *Times* of October 16) that there was no sign that any abnormal remittances were made by any of them in anticipation of an outbreak of hostilities.

On the other hand the *Times* of November 27 contained a report of a case, in which the Berlin office of a German bank was stated to have refused, on August 1, to pay £436 10*s*. 4*d*. that it owed to a London firm.

gold reserves went, the crisis was free from the terrors that had been foretold in some quarters. But an unexpected and paradoxical difficulty arose, from the very strength of London's position. Other countries owed us so much and had so little to pay it with, that with the best will in the world they for some time could not pay us a stiver.

We have seen above that the manner in which other countries feed their exchange markets with sterling bills, that is bills payable in English money, is by shipping goods. Every £1000 worth of copper shipped to England from America, or coffee from Brazil, gives the shipping country a claim on London to that extent, and means that in New York or Rio a bill for £1000 can be bought by those who have debts to pay in London. A sale of securities, as when an American railway makes an issue of bonds in London, has the same effect. At the beginning of August, sales of securities to London were impossible, and only by the shipment of goods or gold could bills on London be produced. But in time of war shipping facilities are dear and disorganized, and the war risk insurance

is apt to rise so high that shipments of goods may be unprofitable and so the supply of bills is curtailed just when it is most needed, and the price of pounds sterling may rise to prices that are altogether unheard of. Thus in New York the price of a sovereign in London, which we have seen to be normally well below \$5 (ranging from about 4.83¾ to about 4.88¾), is said to have touched \$7 early in August. All these things happened because England's position as a creditor country is so overwhelmingly strong that when she called on other nations to pay what was due, the other nations had a relatively trivial amount of outstanding claims on England to set against what they owed her, and being unable to ship goods or gold with the usual facilities, or to sell England securities, simply could not pay.

But the question may well be asked, how it was that England was able to claim immediate payment of such large sums from other countries. Everybody knows that she makes large investments in other countries by buying their bonds and stocks and shares, but these investments are usually more or less permanent, and

do not give England any right to immediate repayment, unless she can sell the securities back to the countries of origin, which she clearly could not do, at a time of international, or world-wide, crisis.

To account for this power to call for immediate payment that England holds, we have to go back to the bill of exchange. In the example of it given above we considered it merely as a means of remittance, and for the sake of simplicity imagined it to be drawn payable at sight. But the bill is much more than that. Usually it is drawn payable two, three, or (more rarely) six months after sight—sight means the date on which the bill, having arrived in London, is presented to the acceptor for acceptance. The bill is usually sold, as we saw on p. 43, in the country of its origin, to a banker or dealer in exchange; he forwards it to his agent in London, and after it has been accepted it can be sold (or discounted as it is called) by the agent on behalf of the foreign banker at the current rate of discount. When the bill falls due it has to be paid, either by the importer of the goods, if it was drawn directly

on him, or by a bank or accepting house, which the importer has induced, by paying it a commission, to accept the bill on his account, and so produce a bill that is ranked as first class and can be sold more easily. During the two or three months of its currency the bill has thus provided credit for the importer, giving him time to sell the produce that he has imported, and has at the same time provided a very nice liquid investment for bankers, who as we saw on p. 22 always hold a large number of bills of exchange among their assets.

But so far the bill of exchange does not give England any right to call in money from abroad. On the contrary, bills drawn by American cotton sellers on English importers are claims on England. In actual practice, however, very many bills are drawn on England without any shipment of goods to England. All over the world the bill on England is well known and welcome, chiefly owing to England's mighty world-wide trade, and the fact that a claim on London can always be turned into gold, except when we have a moratorium, which has only happened once, and then it was not necessary.

This universal popularity of the sterling bill has made it become, to a great extent, the currency of international commerce, so that it is a quite common thing for a tea merchant in Shanghai shipping tea to New York to draw a bill for the value of his cargo, not on his American buyer or an American bank, but on an English accepting house or bank, with which the American importer, or his bank, has made the necessary arrangements. The goods go from China to New York. The Chinese merchant draws a bill on John Bull & Co. in London, and sells it to the Shanghai branch of the English Bank of China. Ah Sin has got his money and has no further concern with the bill, except that as drawer of it he is liable on it if John Bull & Co. fail. The English Bank of China sends the bill to its London office, which presents it to John Bull & Co. for acceptance, and then sells it, through a bill broker, to a London bank which holds it as an investment till its due date. At its due date John Bull & Co. have to meet the bill, but in the meantime George Washington, the American tea importer, has to send them the money to meet it withal. He has presumably

sold the tea for American dollars, and so is in a position to buy a sight draft on London and send it to John Bull & Co., and so the circle is complete. The tea went from China to America, the bill went from China to London, and finally another bill goes from America to London.

By this process a great deal of international trade, passing from one end of the world to another, is financed by bills on London. In other words, London supplies credit to the rest of the world for financing the movement of its produce from one foreign country to another. If this business suddenly stops owing to crisis, then the supply of bills on London, of this kind, is suddenly cut off at the main, and, at the same moment, merchants and bankers abroad are all clamouring for bills on London, to pay the amounts that they owe to meet bills drawn on their account. And up go the exchanges all round the hemispheres.

But that is not all, or nearly all. Besides all these bills drawn against goods that never come to England, there is a large number of bills that are drawn against no shipments of

goods at all. For instance, a bank in Denmark may arrange a credit with a London accepting house and draw bills on it, and, having sold the bills, use the funds so created to lend to its Danish customers who want capital for making butter. Probably the bank would deposit securities as collateral. It may be arranged that the bills shall be renewed when due by a fresh set being drawn and accepted. Sometimes these credits have run for years, though the accepting house, of course, always retains the right of terminating them with a stipulated notice. But whatever the period may be, a credit of this kind amounts to a loan from London that can be called in with more or less promptitude. And so here was another handle with which London, when crisis overtook her, could give a sudden tug at the economic entrails of all the civilized countries of the world.

Such was the force of the tug that England put all the rest of the world into a corner. For a time there was not a bill on London to be had in any of the chief financial centres, except, as we have seen, in Paris.* Elsewhere the demand

* Madrid was also a minor exception.

for English bills ate up all the supply and was still clamorous. Even the rich American houses could not remit to London, because they could not buy bills or get gold or ship it if they got it; but New York seems to have begun to make remittances sooner than any other centre, and, as soon as it could buy bills, paid up gallantly, in spite of heavy loss on exchange. It also made heavy payments in gold as soon as it was arranged that gold sent to Ottawa would be accepted there by the Bank of England on account of English creditors. This arrangement was announced on August 12; the Bank of England took gold at Ottawa, and thereupon gave a credit in its books in London to those on whose behalf their American debtors had transferred the gold. The risk and expense of sending the metal across the ocean were thus avoided.

London's external problem was thus quite different from what had been feared. Instead of anybody being able to give us trouble by going off with our gold, the trouble was that other countries not only could not pay us fast enough what they owed, but could not pay us at all.

Hence arose a very serious consequence.

We have seen that most of the bills drawn on London from abroad are drawn on banks and financial houses. This is often so even in the case of bills drawn against goods shipped to England, because the credit of the importing merchants does not, as a rule, stand so high as that of the banks and great houses, and so the merchants pay a commission to the banks and financial houses for accepting bills on their behalf, and thus are enabled to pay their customers abroad with a bill that is more readily sold. In the case of bills drawn against goods going from one foreign country to another, or of finance bills drawn against no shipments of goods anywhither, the banks and finance houses (who are often called accepting houses from their doing this business) are nearly always the acceptors, and so are liable to meet the bills when they fall due.

Consequently when it was found in the week before the war began that the whole machinery of exchange broke down (because there were no bills on London to be had), and that foreign debtors could not remit the funds

to meet the bills that had been drawn on London to provide them with credit, it was clear that the banks and accepting houses, and also the bill brokers, were in a very awkward position.

The banks, as already shown on p. 24, were hit on both sides of their balance-sheets. Most of them are under a considerable liability as acceptors of bills; this liability is small when compared with the vast volume of their deposits, but it was an additional cause of discomfort at a time when discomfort was already too plentiful. In fact it has been contended in some quarters that this business of accepting bills is one that the joint stock banks, with their huge liability to the public, ought not to enter into at all; that by so doing they are practically lending their customers' money abroad, a risk that they have no right to take with it; and that acceptance requires special knowledge of the position in foreign countries such as is more likely to be found among accepting houses, which specialize in this class of business, than among joint stock banks whose attention is more closely centred on home affairs. It seems to me that this

contention goes much too far. For a bank to give its name to a bill on behalf of a customer whose position it is exceptionally well able to gauge is a perfectly natural operation; and if the banks are to have no commitments abroad they will be prevented, for example, from investing any of their funds in first-class American railroad mortgage bonds, or perhaps even in the securities of the British colonies. But there is certainly good reason for the view that acceptances are a liability which should not be indulged in too freely by the joint stock banks, whose first business it is to supply the public at home with currency and credit, and to see that the public's money is safe in their keeping.

That the accepting houses were put into an awkward position by the failure of their foreign clients to remit is a fact that needs little explanation. In the case of most of them, the greater part of their business consists of this acceptance business, by which they accept, and so promise to pay, bills due at a certain date, in the expectation that before that date arrives their foreign clients will have provided them with the funds

wherewith to do so. If they are careful in the choice of the clients for whom they accept, and spread their risks prudently all round the trading nations of the globe, the business is in normal times perfectly safe and perfectly sound, as long as it is kept within due limits, and the amount of the liability undertaken is not allowed to be too big for the firm's resources. But no conceivable precautions could make an accepting house, with an active business, able to pass wholly unscathed through a crisis such as that of last July, which tied up the exchange machinery of the civilized nations and made them unable to pay what they owed.

This being so, since all the accepting houses were in a more or less uncomfortable position, there began to be a fear that some of them would not be able to stand the strain, and so bills of exchange, that had been looked on as the most liquid investment that a banker could hold, began to be considered in a different light. And the bill brokers, whose stock-in-trade consisted of bills of exchange, and who were already uncomfortable enough owing to the demands made on them by the banks to pay back loans with

which they carried their stock-in-trade, were in a position of cruel anxiety.

Something had to be done. The Government was not greatly exercised about the bill brokers, though failures in the City would have been an unpleasant accompaniment for the first round of the big fight; nor perhaps about the accepting houses for their own sake, since any disaster that befell them, though it might have frightened the general public, would not have had any direct or overt effect on the general public's pocket. But the stability of the accepting houses was of very great importance with regard to foreign trade, for we have seen that they supply much of the credit with which it is carried on; and it was clearly most important that nothing should be allowed to check foreign trade, which was already hampered by high freights, war risk insurance premiums and all the dislocation that is inevitably involved by a sudden plunge into war on the part of five great European Powers, followed by several other peoples. Further, since it was above all things necessary that the joint stock banks should be supported and encouraged, and since

the joint stock banks had already seen all their Stock Exchange investments and loans against Stock Exchange securities frozen into immobility when the Stock Exchange closed its doors, an effort clearly had to be made to make the banks feel happier about their bills of exchange. And this was what finally was done. The accepting houses were not relieved of any liability on their bills. Ultimately they will have to meet them, out of their own pockets if their clients are still unable to remit, but in the meantime it was arranged that the Bank of England will lend them the money wherewith to pay them as they fall due, and the Government guaranteed the Bank of England against loss on this tremendous operation. This arrangement made all the bills held by the joint stock banks a good asset, and incidentally helped the bill brokers.

Several steps marked the progress of the policy which ended in this arrangement. First of all on August 2 a proclamation was issued under which all bills accepted before August 4 should not be payable on their due date, but should be re-accepted for a month.*

* See Appendix II A.

By this measure of relief acceptors were given breathing time, in the hope that the position with regard to foreign exchange might be righted, so that remittances from abroad might come to their rescue. But this improvement showed little sign of happening, and in the meantime the banks were not at all eager to buy new bills, because they had not been assured with regard to the value of those that they held already; nor had they been provided with any means for turning them into cash. The discount market was consequently at a standstill, for when the banks do not buy bills, it follows that the bill brokers cannot do so, since the bill brokers, as we have seen, are merchants in bills relying on the banks to buy them ultimately. Foreign trade, already beset with difficulties, was hampered by the difficulty of drawing bills and selling them. A stronger tonic was evidently needed, and the market's physicians, the Chancellor of the Exchequer and the Bank of England, duly produced one. It was announced on August 13 that the Bank of England would discount all approved bills accepted before August 4, without recourse

against the holders, and the Government agreed to guarantee the Bank of England "from any loss it may incur in discounting bills of exchange, either home or foreign, bank or trade, accepted prior to August 4." *

On paper, it was a big liability for the State to assume, for the number of bills outstanding was estimated at some 350 millions. But there is little reason to fear that the taxpayer will be called upon, to any extent that he will feel appreciably, in consequence of this guarantee. In the first place he is protected by the Bank of England's power of discrimination, contained in the word "approved," in the second by the great strength of the banks and accepting houses on whom most of the bills are drawn, and in the third by the charge of 2 per cent. over Bank rate made for discounting bills (and later, when the form of guarantee was varied, for lending money to acceptors wherewith to take bills up). As Bank rate was 5 per cent., the total charge was 7 per cent., out of which, as Mr. Lloyd George told the House of Commons on November 27, "2½ goes

* See Appendix II B.

to Government as insurance for any possible loss, 4 per cent. goes to the Bank as interest and ½ per cent. for the part they took in carrying through the transaction."*

The arrangement that the Bank of England was to discount all these bills "without recourse against the holder" needs explanation. Normally every seller of a bill of exchange endorses it by writing his name on the back, and is liable for its amount to his buyer, if it is not met at maturity. This liability is expressed by saying that the buyer has recourse against the firm or company that sold it to him. So that if when a bill is due the acceptor cannot pay, the holder has recourse against his seller, who has recourse against his, and so on all the way up the chain. The Bank of England, with the State behind it, was ready to buy bills without recourse against the holders, and so relieved the banks of all liability on the bills in their portfolios, and enabled the banks to turn them into cash. But previous holders, who had endorsed the bills, were still, apparently, liable if the bills were not finally met. It was

* Parliamentary Debates, Vol. 68, No. 12, p. 1522.

also provided that, on the maturity of the bills, the Bank of England would give the acceptor the opportunity "until further notice," of postponing payment, he paying interest at Bank rate *plus* 2 per cent. Acceptors were thus made comfortable pending further notice, which was taken to mean until the war was over and business was normal again. But the vagueness of the phrase was an element of uncertainty.

By this arrangement, then, the joint stock banks were able to sell their bills to the Bank of England and rid themselves of all liability. The result was that the banks sent bills for discount in very large amounts to the Bank of England, and still the evils that it was hoped to correct were not abolished. New bills, accepted after the moratorium, came forward very slowly and were bought sparingly by the banks, and, because new bills on London were created slowly, the exchanges still refused to work freely. It was a case of a vicious circle. As long as the exchanges did not work, acceptors were not anxious to be drawn on, because they feared that their foreign customers would not be able to remit when the bills fell due.

Unless acceptors were ready to be drawn on the exchanges could not work, because there were no bills to be had, and there could not be a free market in exchange. Queer notions got abroad, as for example that the only bill which could be accepted with safety was a bill drawn against an actual shipment of goods to England, because in its case the goods came to this country and were sold here, and so the funds to meet the bill were ready on the spot, and there was no question of a foreign remittance to meet the bill. Of course it is perfectly true that this kind of bill is the safest, when there is any chance of the exchanges being disorganized, but for London suddenly to say that it would no longer be drawn on against goods going from one country to another, and would no longer accept finance bills drawn against no movement of goods at all, was the same thing as for London to inform the rest of the world that it could no longer have credit for international trade, but must learn to trade on a cash basis. But this whole question of finance bills, and their utility and necessity, is so big that it must wait for another chapter.

Finding that the revolutionary arrangement by which the Bank of England promised to discount all the pre-moratorium bills did not produce the desired result, one more effort was made at the beginning of September. The general moratorium had in the meantime been continued till October 4, by proclamations dated September 1 and September 3.* It was announced on September 5 † that the Bank of England, instead of merely buying bills accepted before the moratorium, would lend money to the acceptors to meet them, thereby relieving not only the holders of the bills, but also all the previous endorsers. Further, the assets of the acceptors were to be subject to a first-charge in favour of the holders of any bills drawn since the moratorium, so that the Government not only undertook a big liability on the pre-moratorium bills, but ranked itself as holder of a second charge on the assets of those who had accepted them. The Bank of England also undertook not to claim repayment from the acceptors until a year after the end of the war. At the same time the acceptors were expected

* See Appendix I D. † See Appendix II C.

to make every effort to induce their foreign customers to remit, and to use the funds so received to pay off loans from the Bank of England that they had raised for meeting their bills.

Finally it was stated that in order to facilitate fresh business and international trade the joint stock banks had "arranged, with the co-operation, if necessary, of the Bank of England and the Government, to advance to clients [*i.e.* to acceptors] the amounts necessary to pay their acceptances at maturity," if necessary. "The acceptor," it was added, "would have to satisfy the joint stock banks or the Bank of England both as to the nature of the transaction and as to the reason why the money is not forthcoming from the client" (*i.e.* from the foreign customer on whose account the bill had been accepted).

Thus it was left to the joint stock banks, with the Bank of England behind them, to give further assistance to acceptors if any new bills that were drawn on them were again, at the time of maturity, not provided for by remittances from the foreign drawers.

These arrangements were apparently drastic enough, but they did not produce a satisfactory result. They put everybody into an awkward position. The accepting houses were bound to bring pressure on their foreign customers who had drawn on them, to remit money to meet their pre-moratorium bills. The said foreign customers generally were able to plead a moratorium in their own country, or, if not, were able to point to so ruinous a rate of exchange and so much difficulty in buying bills on London, that all pressure was bootless. The only way out was to let them draw a new bill, and with its proceeds, when it had been sold in the London discount market, to meet the old one. If all the accepting houses had boldly done so there would have been a plentiful supply of new sterling bills, the exchanges would have come down to something like their normal levels, and the whole machinery would have got to work again. But there were two obstacles in the way of the accepting houses taking this spirited line. It was not certain that new bills drawn on some of them would be bought by the banks, as readily as they had been before the crisis; and for

an accepting house to have its bills refused or even questioned is an experience that it is most reluctant to hazard. And if the new bill were accepted and discounted, and then at the end of its life the foreign customer were still unable to remit, then the accepting house would have to go to its banker to ask him for the loan of funds to meet the bill, and to "satisfy" the banker as to the nature of the transaction. This again was a position in which the accepting house would be most reluctant to place itself.

Under this arrangement, in short, the joint stock banks were made, to a greater extent than usual, the arbiters as to the position of the accepting houses, and the question was complicated by the fact that the joint stock banks, are, as we have seen, big acceptors themselves, and so are competitors with the accepting houses for acceptance business. The best bills handled by the London money market are drawn on the joint stock banks and the great accepting houses. But the ultimate home of nearly all these bills, as they pass through the hands of the bill brokers, is found in the portfolios of the joint stock banks. It is therefore

in the hands of the latter to decide whose bills shall be taken and whose shall be left homeless. Human nature being what it is, it was natural, at this time of uncertainty and nervous worry, that the banks should be accused of unfair discrimination against the bills of the accepting houses, and even of attempting to drive the latter out of the accepting business and keeping it all for one another. A certain amount of gossip of this kind was certainly current in Lombard Street, but there seems to have been little or no foundation for it. The banks have not the necessary equipment for doing a large part of the business that is handled by the accepting houses, and, as has already been shown, a large expansion in acceptance business on the part of the banks would hardly be prudent, after the recent experience that they have had of its risks at a time when their liabilities to their home customers required all their attention.

Critics of the action of the joint stock banks during the moratorium period are on surer ground when they contend that, in view of the great measures of relief that had been designed

and taken to strengthen their position and restore the confidence of the public in them, they might have shown greater readiness to assist in the task of reorganizing exchange, by buying new bills freely, after they had been relieved of all responsibility for their pre-moratorium paper. By so doing they would not merely have been helping the accepting houses to get in what was owed to them, but also, as will be shown later, would have been lending a hand towards the much more important task of keeping British trade busy and so checking unemployment at home.

CHAPTER IV

FINANCE BILLS AND TRADE

If a bank wants to ruin all its customers and therefore, incidentally and consequently, itself, the easiest way for it to do so is to ask them all to pay, forthwith, what they owe it. If there is some other bank from which they can borrow the wherewithal to pay, then bank number one may get its money back and lose its business. If not, bank and customers are in a hole together and remain there until the bank thinks better of the demand that it is making.

This was in effect what London was doing to the rest of the world at the beginning of the war. London was the world's banker, as it has so often boasted, and it said to the world, Pay up. There was no other banker to which the world could apply, no other centre in which there is an accumulation of capital and a machinery of credit capable of financing the world's commercial requirements. Paris might

at a different season have provided some of the credits that London was wanting to turn into cash, but Paris had its own preoccupations and was not asking for new acceptance business at the beginning of August, 1914. Berlin used to accept a fair number of bills, and she also would have been ready enough to fill the gap that London made, if Germany had not been at war, and if London would have lent the money to Berlin to finance other countries with. But in the circumstances then ruling, Berlin was as helpless as Paris, in fact much more so, since it may be doubted whether even in normal times Germany has any surplus capital to spare. The fact that it does finance other countries is no proof, since we know that it also finances itself in London and Paris. New York had a great opportunity for taking London's business away from it and establishing itself as the world's financial centre, at this time when London was trying to force liquidation on other countries. But New York was so busy in trying to pay its own debts that it seems to have made little or no attempt to finance any one else. The mass of securities that the Eastern Hemisphere

had thrown at it in the months before the war, and the huge blocks of gold that it had had to send to Europe in payment for them, had crippled and dispirited American finance, which had already had many lean years to endure, chiefly owing to local preoccupations.

Thus there was no one to help the borrowing countries, and so, as we have seen, they simply could not pay. London was doing to its foreign customers just what the English and foreign banks had already done to the London Stock Exchange. By calling in loans from the Stock Exchange the banks had helped it to close its doors. By calling in credits from abroad, London invited foreign countries to put up their shutters, which they proceeded to do by declaring moratoriums, or if that was constitutionally impossible, as in the United States, acting as if they had one.* They had no choice, because there was not a bill on London to be had, except the few drawn against shipments to England, which did not nearly

* A New York banker wrote on September 3, 1914, to a correspondent in London: "We have no legal moratorium, but the Stock Exchange and all business (houses ?) have practically declared one in the financial district."

suffice to make the payments that London required.

For years London had proudly asserted that the bill on herself was the currency of international trade. How true this was she proved at this crisis. For she said in one and the same breath, "You other countries shall not have any more bills on London," and "Give me back my money," as if they could, when their supply of currency was stopped. London's claim to supremacy in finance was never more clearly proved than by the deadlock produced by the vicious circle, round which she and her foreign customers gyrated at the beginning of this war, until they were all dizzy.

These things all happened because a credit system can only be worked on credit, and credit is the belief that trade will go on much as usual. If there comes a great shock, and all money lenders suddenly decide to strengthen themselves by turning their loans into cash, by calling on their debtors to pay, the only possible result is a brick wall against opposite sides of which lenders and borrowers batter their heads, to their mutual discomfort.

It is easy enough to see that by making this imperative claim on the rest of the world London only increased the evils from which it was suffering, but it is not so easy to criticize London for doing so. For we have to remember that London, when considered as the world's banker, consists not of one great body able to take a serene and disinterested view of what is happening, but of a number of banks and accepting houses, each of which has liabilities which it may be called on to meet, and is therefore impelled to make its assets as liquid as possible. "Every tub," as the *Pilgrim's Progress* says, "must stand upon its own bottom."

We must also remember that this crisis, terrible alike in the vastness of its scope and the suddenness of its swoop, happened at a time when the financial world was by no means in good shape to meet it. For years past development all over the world had been clamouring for capital, while at the same time the old capital-saving countries had been spending their saving power on armaments, public extravagance, and private luxury. For years, consequently, there had not been enough capital

to go round, and the price of capital, expressed in the rate of interest on good securities, had been going up,—that is, the price of securities, on which the solvency of so many financial institutions depends, had been going down. Finance was already sick of a slow fever, when it was expected to stand up and smile under the biggest blow that had ever been dealt to it. All this considered, it took its punishment with as good a grace as could have been expected.

"The devil was sick, the devil a monk would be." Finance, being shaken with an ague, became extremely virtuous. All who had anything to do with bills of exchange—acceptors, bill brokers and bankers—began to bethink them that there had been too many finance bills, and so, many of them jumped to the extreme and impossible conclusion that there ought not to be any finance bills at all. Finance bills, as already explained on p. 56, are bills drawn not against the actual shipment of produce from place to place but against securities deposited, or sometimes merely against the good credit of the drawer, or some one who guarantees the drawer, that is, promises the acceptor that

if the drawer cannot pay in time to meet the bill, he will pay for him.

Finance bills are thus a development of the accommodation paper, with which Mr. Richard Swiveller and others of his kidney have been assisted to outrun the constable. It is a form of bill which is extremely liable to abuse, and the amount of it that is about is a matter that always has to be carefully watched by those responsible for the soundness and safety of the London money market. For some time before the crisis it had been felt that finance bills had been created too rapidly. Owing to the difficulty of issuing long-time securities, caused by the scarcity of capital referred to above, many borrowers abroad who ought to have issued bonds or shares for financing their enterprises, had applied to their local banks, who had raised the cash to lend them by drawing finance bills on London. This was an unsound development, and its gradual reduction was already in process when the crisis came upon us.

But because finance bills had been abused and multiplied beyond the limit of prudence,

that was no reason why they should be cut out of the programme altogether. In due measure they are not only legitimate but indispensable. If no finance bills were drawn, there would be no bills except those created by a genuine shipment of goods or produce, or unless there was a genuine debt to be paid by one country to another for securities or freights ; by admitting bills drawn for payments of this kind we are giving a much wider meaning to the commercial bill than it usually carries. But even after thus making the best of it we cannot make the commercial bill an efficient instrument of international currency, unless it is allowed the assistance of its disreputable but useful financial colleague. Commercial bills have a most inconvenient habit of coming into being only at certain times of year. In the autumn, when the United States garners its harvest of cereals and cotton, it holds the Western Hemisphere in fee for the time being, and has a huge mass of bills to draw against the produce that it is shipping to feed and clothe its customers on this side. The creation of this great mass of bills if left to itself would naturally flood the market

and depress the American exchange to a point at which gold would have to be imported from London every autumn in large amounts, because claims on London would be sold so cheap in American dollars that it would pay their holders better to bring them home in the form of gold.

Finance bills tend to prevent this clumsy method of settling claims in metal. At times when claims on London are scarce and wanted in New York (because little or no produce is being shipped, while interest is due to England on millions invested in America) then financial houses on both sides of the water agree together to make fictitious claims. A New York house draws a bill on its London correspondent in July for example, when many coupons have to be met and the expenditure of American travellers in Europe means that many dollars have to be turned into sovereigns, and so bills on London are wanted and dear. Any one who then meets this demand by creating an apparently fictitious bill, probably benefits himself because he sells his claim on London, so created, at a high price. He also benefits those who want claims on London by supplying their

need, and he also helps to prevent the necessity for gold shipments from America to England by keeping the exchange from going up to the point at which it would pay better to ship gold than to buy a bill.

But that is not all the benefit that he confers. For he has to "cover" his bill. It was drawn in July, payable at 90 days after sight. It arrived in London and was "sighted" and accepted by the English firm drawn on on July 10. So that before October 11 (90 days plus the usual three days' grace) the American must buy a draft on London and ship it to his English correspondent to enable him to meet the bill; thus he comes into the exchange market as a buyer of sterling money, just at the time when the market is flooded with cotton bills and claims on London are going begging. He is thus enabled to make a profit for himself by buying a bill on London cheap, and also by his timely demand helps to steady the price of sterling in dollars and prevent gold from having to be shipped from London to New York.

Finance bills of this kind, drawn in anticipation of shipments of produce, thus perform a

most useful office by checking fluctuations in exchange, and expensive and clumsy shipments of gold from one side of the ocean to another. If they were abolished, the exchanges would tend to swing violently from one gold point to another, according as the movement of produce or the payment of other seasonal debts shifted the balance of claims from one country to another.

There is no doubt, of course, that many finance bills have been drawn in times past for less legitimate purposes, to provide money that was going into factory building or other forms of fixed capital which ought to have been provided out of more permanent forms of security, such as bond issues or creations of shares or debenture stocks. Sometimes they have been produced for mere gambling purposes and for financing big operations on the Stock Exchanges of the world. That finance paper of this kind should gradually be cut down at a time when capital was cheap and long securities could be issued easily, would have been a sound and remedial policy. But it is one of the well-worn maxims of banking that

bankers must not restrict credit too roughly when times are bad, because if they do they put their customers in a corner, and if they only put enough of their customers in a corner they will inevitably join them there themselves. But this was what London did, and duly found itself in a corner. Without finance bills it found that there could not be a free market in exchange, because there were not enough pure commercial bills to supply all those who had debts to meet in London, and so London could not collect its debts.

If this result had merely inconvenienced the manufacturers of credit in Lombard Street, they might fairly have been left to worry their way through their difficulties, with the help of the vast store of financial ingenuity that is to be found in and about its purlieus. But the evil was much bigger than that. Lombard Street does not exist to enable a number of acute gentlemen to make fortunes by signing and trafficking in pieces of paper. It exists to grease the wheels of the world's commerce, and if it makes mistakes, these mistakes react on the people who keep us all alive and clothed

and comfortable, the growers, makers and forwarders of the necessaries and luxuries that we all consume. And this was why, when the City was threatened with grave trouble, the Government was ready to pledge its credit so promptly and freely.

If Lombard Street had insisted on cutting off finance bills, the effect on our export trade would have been disastrous, and unemployment would have been seriously increased. For every year England invests a huge amount abroad, 200 millions and more in recent years. To this extent she imports securities from abroad, and exports goods and services and claims for interest. This investment, and the traffic that it causes, almost ceases in time of war, or rather it has almost ceased in this war up to the present. Since the war began a few French Treasury bills have been placed in London, and some Colonial Treasury bills have been renewed. Renewals have also been effected on a very small scale of American railroad notes falling due. But on the whole it may be said that the machinery by which English money is borrowed by foreign countries, enabling them to buy our goods and

services, and to pay their interest on existing debt to us, has stopped with a jerk. The consequence inevitably is a lessened demand for our goods and services, and defaults in interest payments.

To this extent it was inevitable that our foreign trade should be hit hard by war. But that is all the more reason why we should not give it another and quite unnecessary blow, by making all our foreign debtors liquidate the debts due to us on short credits raised through finance bills. For how can foreign countries liquidate this debt? Either by sending us extra goods, or gold, or by lessening their purchases of goods from us. If we suppose that the amount of these credits is a hundred millions, then, if foreign countries cannot send us this sum in goods, over and above what they usually ship to us (which is extremely unlikely owing to the many difficulties that war puts in the way of international trade), or in gold, which is practically impossible because most countries refuse to part with their gold, the only way in which they can balance the account is by taking fewer goods and services

from us. And this can only mean an increase of unemployment at home, at the very time when it is all-important that every able-bodied man who is not at the front, or in training, should be hard at work and earning good wages.

A good deal of unnecessary pessimism was indulged in at the beginning of the war, about the extent of the unemployment that was alleged to be inevitable, and the rapidity with which it was supposed to be certain to increase. Unemployment ought not to be a necessary result of war. In a state in which industry was organized on a rational basis it would rather follow that war would increase the demand for labour, by taking away a large number of able-bodied men from the labour market, and at the same time greatly quickening the demand for all kinds of goods that are necessary for the feeding and clothing of a fleet and army on active service, and for the upkeep of their weapons and ammunition. To a country which can keep its means of outside communication open, and is not itself invaded, a time of war ought to be a time at which, so far from there being any fear of enforced idleness, every man and

woman who can work would be working hard to make good the gap in the productive ranks, caused by the drafting away of the flower of our manhood into the business of fighting our battles. In fact, the extent of unemployment in war time may be said to be a measure of the misdirection of our industrial energy in time of peace. Because so much of this energy usually goes into turning out luxuries and frivolities and absurdities that nobody really needs and that everybody is ashamed to be seen consuming at a time of national crisis, war brings with it a great dislocation of trade, and thousands of unfortunate people who made futile frillings for our hours of ease are out-of-work, while there is not enough labour available to turn out all the things that are urgently required for our troops and sailors. And so we see the melancholy spectacle of out-of-works in one street, and over-pressure in the next. It may perhaps be hoped that one of the lessons that this war will teach our well-to-do classes will be that much of the frivolous expenditure that formerly warped the course of our industrial effort did not do them any good or make them any happier. Then

if they will also learn that it was bad for the working classes, we shall have gone a long way towards a great and salutary economic reform.

In the meantime, however, some dislocation in trade is inevitable and unemployment follows in its train. And it was much to be deplored that this tendency to unemployment should have been increased by the rigorous policy of Lombard Street, in cutting down credits given to foreign customers. By so doing Lombard Street only maintained the deadlock in exchange by making bills on London scarce and increasing the demand for them, and at the same time, and in consequence, made foreigners anxious to sell to us and shy of buying from us.

Let us take Sweden as an example. The exchange is normally 18 kronor 20 öre to the pound sterling. London banks and accepting houses had given Swedish banks and merchants large credits, that is, had allowed them to draw bills on London to finance their local enterprises. A mass of these bills, periodically renewed, was chronically outstanding. Then came the war, and Lombard Street said that these credits must be called in, with the result that all its debtors in

Stockholm had to try to buy bills on London to remit them in payment. The exchange went up to 19 kronor 20 öre to the pound, and hardly any bills were to be had even at that price. So that anybody who could sell a pound's worth of goods to England got 19 kronor 20 öre instead of the 18 kronor 20 öre that he used to expect, and was thereby encouraged to sell to us as fast as he could; and contrariwise any one who bought a pound's worth of goods from us had to pay 19 kronor 20 öre in his own currency to do so instead of only 18 kronor 20 öre, and so was to that extent deterred from buying our goods.

There can be no doubt that Lombard Street's untimely fit of virtue on the subject of finance bills prolonged the difficulties from which it suffered during the first months of the war.—The question was complicated by the fact that under the Treasury's statement of September 5, any acceptor who allowed his foreign customers to draw on him fresh bills after the moratorium did so with the possibility before him, if the customer was unable to remit to meet the bill when it fell due, of having to ask his banker to lend him the money to meet it, and satisfy his

banker that the bill was one that ought to have been drawn. The obstacles in the way of new bills, produced by this possibility, have already been pointed out, and so the effect of the cold fit about finance bills was particularly severe and widespread. There was also the very practical danger, that credits given to neutral countries might be used by them for financing trade with our enemies.

With these and other difficulties in the way of the creation of new bills after the crisis, it is not surprising that the exchanges were slow in coming down to a normal level, and that the export trade of the country was hampered by the fact that our foreign customers, who had been in the habit of buying from us with money that we lent them, now found that they could no longer do so, but were expected to pay back to us the credits that they had formerly enjoyed. The effect of these evils was such that I heard the opinion expressed by an acute observer of all that goes on in Lombard Street, that the Government ought to have been asked to go still further in the way of guaranteeing the accepting business of the City, purely in the

interest of our export trade and the wages of the workers employed in it. He contended that the loss likely to fall on the taxpayer for the guarantee already given is very small; and that it was therefore a feasible suggestion—and one that would have benefited the trade of the country—that the recognized accepting houses should accept new bills on behalf of customers for whom they have hitherto done so, with a further guarantee of the Treasury behind them, charging their customers, on behalf of whom they accepted, twice the normal commission, and paying the extra commission into a fund to secure the Treasury against loss on this guarantee.

If such a scheme could have been carried out, it would have at once relieved the Bank of England to a great extent of the necessity of lending funds to the accepting houses in order to take up their pre-moratorium bills, because they could immediately have enabled their customers (except such as were enemy aliens) to provide funds to meet them by drawing new bills, which would have been sold to their local bankers, and by them sent to London to be discounted

in the usual manner that worked so easily before the war. There would have been a free discount market, for these bills with a Treasury guarantee would have been readily bought by the banks, there would have been a free market in exchange, because foreign centres would have been supplied with plenty of sterling bills, the exchanges would have returned to a more or less normal basis, and (most important of all) foreigners would have been able to buy our goods and services as of yore, instead of having to check their purchases of them in order to liquidate their debt to us.

Such a scheme would have involved many difficulties and required many restrictions and limitations. But it is clear that if we insist on foreign countries paying us all that they owe on finance bills, they can only do so either by borrowing from us in some other form, or by sending us gold, of which we have already got a very good supply, or by cutting off their purchases of our goods, to the detriment of our trade. Russia, whose exchange has shown an especially severe depreciation in the value of her currency, doubtless owing to the great

difficulty put in the way of her export trade, through the naval war in the Baltic and the closing of the Dardanelles, and the accompanying necessity of making large purchases of war material and clothing here, has sent some £8,000,000 hither in sovereigns and bar gold, and is said to be negotiating for a big issue of Treasury bills in London.* And arrangements are in progress for some sort of a loan from England, or the Bank of England, to the United States, or to American bankers, in order to save American finance from the necessity for further shipments of gold to Ottawa. Brazil has fallen back on the remedy, tried by it before, of a funding scheme, by which it practically helps itself to a loan from England of £15,000,000, by suspending the interest of its English-held debt for three years, and a further sum that it takes by suspending the redemption of this debt for thirteen years.

Any country, in short, that has been used

* Since the above sentence was written it has been announced (see *Times* of December 5) that the Government has agreed "to arrange with the Bank of England to discount, under a guarantee of H.M. Government, Russian Treasury bills" to the amount of £12,000,000.

to buying our goods and paying interest to us with periodical doses of credit advanced by us, can only do two things if we refuse to continue the doses, and call back as much as we can of those that we have administered. Either it must reduce its purchases of our goods or default in its interest payments, or both. (The austerity of Lombard Street's attitude towards finance bills already showed signs of softening before the moratorium ended. Austerity is a highly respectable virtue in the right place and at the right season, but in times of crisis leniency towards debtors is like the quality of mercy—) "it is twice blest; it blesseth him that gives and him that takes."

CHAPTER V

AFTERTHOUGHTS

With the end of the moratorium on November 4, it may be said that the crisis produced by the outbreak of war was over. When peace comes, and the Stock Exchanges are reopened, and prices adapt themselves to the new price of capital that the present destruction of some eight to ten millions of it a day will bring about, and creditors begin to try to collect debts from impoverished debtors in war-wasted countries, then there will be a new set of problems, the acuteness of which will largely depend on the length of the war and the extent to which the fighters are worn out. These problems will exercise all the ingenuity and strength that Lombard Street can muster. For the present it is enough to see how we stand at the end of the opening period of the war, and what have been the effects of the financial tornado with which its beginning was heralded.

The earlier chapters of this book have been written in vain if they have not shown that the crisis of last August was the greatest evidence of London's strength as a financial centre that it could have desired or dreamt of. It was so strong that it did not know how strong it was. Consequently, being a little flustered by the suddenness of the outbreak of war, on a scale that mankind had never seen before, it made the mistake of asking its debtors to repay it, not the thousands of millions that it had lent in the form of permanent investment, but the comparatively trifling amount—perhaps 150 or 200 millions—that it had lent in the shape of bills of exchange drawn on it, and other forms of short credits. Thereby it put the rest of the economically civilized world, for the time being, into the bankruptcy court, and so, finding that none of its debtors could pay, it thought itself obliged to ask for time from its own creditors at home. Foreign creditors it had none, except Paris. It sent gold to Paris as fast as it could be shipped and insured, and so seems to have liquidated its debt. For when a market in exchange reopened after the first shock of war,

the Paris cheque soon steadied itself at a more or less normal level, above the point at which gold could be sent to France as an exchange operation. It is possible, however, that London was still in debt to Paris, and that Paris preferred for obvious reasons to leave its money on this side of the Channel.

Of the three possible rivals to London as a financial centre, Paris was the only one that gave any evidence of real financial strength. Behind Paris stands the enormous power of the thrifty French investor, who probably accumulates a greater proportion of his income than anybody in the world, except, perhaps, some classes of Scotsmen. This accumulating power of the French gives the Paris money market a position of first-rate importance in the financial world, because capital has to be saved, and a saving people has capital to lend. The advantage that London holds in its more elastic credit system is partly balanced by the advantage given to Paris by the thrifty habits of the French people. If Paris adopted a more businesslike policy with regard to her huge store of gold, which she has hitherto seemed to

regard as a precious asset to be sat on and protected by the charge of a premium to audacious people who want to withdraw a bit of it, she might, in normal times, be a much more dangerous rival to London than she is. But it need hardly be said that Paris, as a financial centre, was soon wrapped in the cloud of war and invasion, and had no chance of making any effort to oust London from her pride of chief place.

Berlin was equally cut off from competition, for Berlin had to devote herself to the task of financing war for Germany. Moreover, the rapid depreciation in the value of the mark that took place before the war began showed that Germany was still a debtor country in the short-loan market. The Berlin exchange, while war was as yet only a dreaded possibility, rose from 20 m. 50 pf. to 20 m. 60 pf. Germany invests money abroad, but she seems to borrow as much, and more, in the discount markets of London and Paris. So it came to pass that, in spite of the big sales of securities that she had thrown on the markets of New York and London, she still had to pay when the big day

of settlement came, and to pay so fast that she had not a bill on London left to pay with.

It was the chance of a century for New York. American ambition has long ago informed the world that the United States, having been the world's granary, is now the world's most progressive manufacturer, and means soon to be the world's banker. This may happen some day, and might have happened already if American policy in currency, financial and fiscal matters had been more enlightened, and if her people had been more thrifty. But they have tied their credit system in the bonds of narrow banking laws and their trade in those of a cramping tariff. These bonds they have just begun to shake off, and if the crisis had happened a few years later they might perhaps have made a bid for London's place as world banker. But it is hardly likely, for the development of the enormous resources of the country still craves for much more capital than its people can provide. The United States is still a debtor to the world at large and seems likely to be so for some time to come, and it is doubtful whether even New York, with all

its skill in the jugglery of finance, can make itself a great banking centre as long as its heavy balance of indebtedness is always waiting to turn the world's exchanges against it, whenever the monetary sky is overcast.

It was the chance of a century, but New York could not take it. When London called in its credits from other countries, any centre that could have said to these countries, "We will give you the credit that London has cut off, and lend you the money to pay London," would have stepped straight on to London's financial throne and set London a very difficult task to regain it after the war was over. In spite of the large amounts of gold taken from America to Europe before the war, the United States had still a huge store within its borders—some estimates of it ranged up to 400 millions sterling. If the United States had had the courage to use this mountain of metal and let other countries draw on it, London would have had more gold than it knew what to do with, and New York would have had a big slice of London's business. The United States were at peace, and, with all the chief countries of this antiquated

hemisphere engaged in the mediæval business of killing one another's citizens and destroying one another's property, the United States might have been expected to leap into the position of economic leadership. But America feared to use its gold, and held on to it as tightly as it could, fearful of internal trouble and a run on its banks if too much of the metal went abroad. In New York, as in most other centres, the question of the moment was, not to take London's business, but to pay what she owed to London and to buy bills on London at sky-rocket prices wherever they could be found. The strength of the fat old moneylender, whom the Australian papers, angry with him because he did not lend fast enough, used to call John Bull Cohen, was never more wonderfully made manifest. Strength in money bags is not every-thing—very far from it—but at least J. B. Cohen can claim that he has made good use of it. He has peopled and fertilized the uttermost ends of the earth with his sons and his capital, and he alone among the nations has had the courage and the homely wit to throw his ports open to all and to tell all the peoples of the world to

send their stuff along if it is worth buying. Moreover he has lately shown that, in spite of all his alleged decadence, he can still tuck up his sleeves on occasion and fight, at least as well as anybody else.

So far was New York from being able to supplant London that, as we have seen, the United States had to make special arrangements to tide over the difficulty which London's claims on her had produced. A Reuter telegram from Washington, published in the English papers of October 10, stated that—

"the conditions of exchange between England and the United States and the situation of the cotton markets of the world will be discussed at an approaching conference between the American Treasury officials and Sir George Paish and Mr. Basil Blackett, who are coming over from England at the invitation of Mr. McAdoo, Secretary for the Treasury. It is understood that the two Englishmen will also meet the new Federal Reserve Board, and that possibly this meeting may render it unnecessary for Americans to ship a large part of the fund of $100,000,000 in gold, which has been raised here to help to solve the foreign exchange situation."

It appears from the terms of this message that the American Government found it necessary to ask officials of the British Treasury to come over and help it to find ways and means for meeting part of the debt of the United States to England, without shipping any more American gold. This could only be done by England's giving America some sort of credit to take the place of the finance bills and other forms of accommodation which Lombard Street had withdrawn.

At the same time there is no doubt that New York did some of the business for herself that London had formerly done for her. If she was not in a position to finance other countries, she did make a beginning in financing her own imports. Exporters of goods from South America to the United States who had formerly taken payment by drawing bills on London, and were no longer able to do so, drew on financial institutions in New York instead. Some of these bills were used to make three-cornered payments from South America to London, and a very costly means of payment they were to the debtor, owing to the high rate

of discount in New York, and the depreciation of the American dollar as compared with the pound sterling.

It seems likely that this business of financing American trade New York will keep in her own hands to a greater extent than she did before. Probably she would have taken more of it to herself even if there had been no war. Her new banking legislation has included in its aim the establishment of branches of American banks abroad, and the development of acceptance business in New York. It could not be expected that New York would always be content to see the greater part of America's external trade financed with English credit. Her next step will be to endeavour to finance other people's trade, and she is already beginning to set about taking it, being assisted by Lombard Street's shyness in the matter of new acceptance business.* If the war should be long continued, its appalling

* An announcement in the *Times* of December 4 that American bankers had taken $12,690,000 Canadian Pacific Railway Equipment Certificates and $5,000,000 Swedish Government Treasury notes seemed to indicate that New York was starting as international moneylender on a considerable scale. But both these issues were immediately offered in London.

drain on the combatants ought to help her by exhausting the rivals whom she hopes to drive out of the field.

So far, then, from the late crisis having given any evidence of weakness on the part of London, or of any likelihood that she will lose her supremacy as the world's banker, the commanding strength of her position has been made abundantly manifest. The only weak point was not in her armour but in that of her foreign customers. The question arises whether she was wise in lending so much to debtors who showed such unanimous inability to pay on the due dates. I have heard it contended by a disinterested and well-qualified critic, that the risk run by Lombard Street in allowing bills to be drawn on her from all parts of the world against goods shipped from one country to another, has been shown by the late crisis to be too great to be worth the candle. Bills drawn against goods coming to England are safe enough, for as long as the goods come to port and can be sold for them, the acceptor is sure of his money. But when the goods go from China to Peru, and Peru finds that it cannot

remit to meet the bill, the acceptor is inconvenienced, and the bank or bill broker who holds the bill finds that he has got a security which was not quite as gilt-edged as he thought it. This is all quite true, but contrariwise it may be argued that this sort of world crisis is not going to happen again very soon, and that if all finance had to be arranged on the theory that it was likely to recur frequently, there would be very little finance of any kind. These bills drawn against international shipments of goods do much to make the bill on London popular all over the world, and if they are to be frowned on there will be a considerable restriction of international commerce, which will react unpleasantly on England. In ordinary times these bills are safe enough, if due precautions are taken. If mistakes are made they happen rarely and the resources of the accepting houses are easily able to repair the damage.

As to finance bills, it has already been admitted that much credit was given by their means which was used for purposes with which bills of exchange ought not to be associated. The essence of a bill of exchange is that it has to

be met at its due date, and so it should only be drawn to finance some commercial operation that will mature before the bill falls due, or to provide means of remittance when they are scarce, owing to seasonal causes which will have passed before the bill's maturity. When rolling credits, as they are called, are established, which go on from year to year, each bill being met by drawing another, and the money so raised in the borrowing country is put into bricks and mortar or machinery or other forms of fixed capital, the uses of the bill of exchange are being strained. When a jolt comes to the machinery and the rolling credit stops rolling, it is not possible to sell the factory or plant to provide a means of remittance. But there is no doubt that for a time, at least, this kind of finance bill is likely to be scarcer than it was; in fact, as we have seen, it was the excessive suddenness of the fit of virtue that seized Lombard Street on this subject that made the crisis more acute than it need have been, by reducing the means of remittance and so keeping the exchanges at an abnormal point.

Lombard Street has thus shown that it has fully learnt the only lesson that the external side of the crisis had to teach it. Too many finance bills of the wrong kind were out, and Lombard Street saw the fact so clearly that for some weeks it rang with the cry that there must never be any more finance bills of any kind at all. This exaggerated view is already discredited, and there is good reason to hope that opinion will settle down to a sensible midway path, taking the finance bill as a quite legitimate and necessary convenience, dangerous only when abused and distorted.

More numerous and more intricate problems arise when we begin to consider the lessons of the crisis as it affected us at home, but little can be said about them until peace has brought with it the day of reckoning and reconstruction.

First of all, the crisis will have left us a legacy in the shape of Government paper money, and this is a new departure that will have to be watched over and regulated very carefully. When a bank issues its own paper money, it can only get it into circulation by inducing those

to whom it owes or lends money to take it in that form. When a Government issues its own paper money, it can compel those to whom it owes money to take it in its own notes, and so can go on merrily paying its way in pieces of paper, and inflating the currency to any extent that it pleases. As the Act stands there is nothing in it, as far as the eye of an ordinary reader can discern, to prevent the Government from making all its payments on supply or for interest on the debt in Treasury notes. It could drop all taxation for a time, if it liked, and just print notes. The Act merely says that "The Treasury may, subject to the provisions of this Act, issue currency notes," it does not say to what extent. Later it observes that "currency notes may be issued to such persons and in such manner as the Treasury may direct."* These unlimited powers were quite reasonable and right when they were first granted, but Parliament seems unlikely to leave them to the Treasury in their present beautiful simplicity.

There is a check, and a very valuable one, in

* See Appendix III A.

the provision that gives the holder of a note the right to demand gold for it at the Bank of England, but a great deal of evil inflation might easily be possible before this check came into play. The powers at present given by the Act might be a dangerous temptation to a short-sighted Government with a subservient majority behind it.

It may also be hoped that Parliament will ask for some more clear statement of the weekly account issued by the Paper Currency Department. At present it is quite incomprehensible except to those who have privileged access to an understanding of its mysteries. Most of the accounts issued by our rulers are of this kind, dim candles lit to make darkness visible, but now that the Government has gone into the note-issuing business, it is desirable that it should show the country what it is doing. Look at this specimen—the account for the week ending on November 4, and taken from the *Times* of November 7:—

ISSUE ACCOUNT.

Total Issued up to Oct. 28, 1914, inclusive:	£	s.	d.	Notes cancelled up to Oct. 28, 1914, inclusive.	£	s.	d.
£1	34,571,372	0	0	£1	11,096,676	0	0
10s. ...	9,180,263	10	0	10s. ...	1,288,269	0	0
Issued during the week ended Nov. 4, 1914:	£	s.	d.	Cancelled during the week ended Nov. 4, 1914.	£	s.	d.
£1	3,682,000	0	0	£1	2,271,650	0	0
10s. ...	492,000	0	0	10s. ...	334,628	10	0
				Total ...	£14,991,223	10	0
				Outstanding.			
				£1	24,885,046	0	0
				10s. ...	8,049,366	0	0
					£32,934,412	0	0
Total ...	£47,925,635	10	0	Total ...	£47,925,635	10	0

BALANCE SHEET.

	£	s.	d.
Notes outstanding	32,934,412	0	0
Total	£32,934,412	0	0

	£	s.	d.
Advances—			
Scottish and Irish Banks of Issue	—		
Other Bankers	334,000	0	0
Post Office Savings Bank	750,000	0	0
Trustee Savings Bank	850,000	0	0
Currency Note Redemption Account—			
Gold Coin and Bullion	10,500,000	0	0
Government Securities	13,923,545	17	5
Balance at the Bank of England	6,576,866	2	7
Total	£32,934,412	0	0

Who could tell from it to whom and for what purposes the notes had been issued? We know that the notes, or some of them, were

originally issued to the banks, and that the banks paid interest on them at Bank rate, which was in those days 5 per cent. The banks passed them on to their customers and they went into circulation. But this statement shows that out of the £32,934,412 outstanding only £334,000 are represented by loans to banks (other than the Post Office Savings Bank and Trustee Savings Banks, which are not banks in the ordinary sense of the word). Apparently therefore the banks have paid off the loans which they took from the Government in the form of notes. But the banks cannot have paid the loans back in notes, because they have gone into circulation and are still outstanding Presumably therefore the banks paid back the Government by transferring to it part of their balances at the Bank of England, and so by guesswork we are able to account for the balance at the Bank of England shown as an asset against the notes. But what are these Government securities to a total of £13,923,546? Some people think they are Treasury bills in which the Currency Department of the Treasury has invested part of its balance; or again there are some who suspect

that they are loans to the spending Government departments, though I am told that this is impossible. One may amuse oneself all day by groping after the meaning of these mysteries, but these mysteries ought to be made clear. The sum of £10,500,000 held in gold means, one supposes, that the Currency Department has used part of its balance at the Bank of England, acquired by the repayments of the banks, to take gold from the Bank of England as a metallic backing for its paper. In so far as they are not backed by metal, the notes outstanding represent in fact a loan that the Government has raised without any interest to pay on it. This is very good business for the Government and quite legitimate within certain limits. But dangerous temptations lurk in this short and simple means of raising cash by printing it. Already I have come across proposals that the Government should make use of it for lending inconvertible paper money to local bodies, without interest, to be used in works devised to meet unemployment owing to the war. Our old friend the *assignat* is still the ideal form of currency in the eyes of many reformers.

It may be also observed that the convertibility of these new Treasury notes at the Bank of England, which is carefully provided by the Act, constitutes a new liability for the Bank, which is not recognized in its weekly Account.

On this question of legal-tender paper currency, the great lesson the crisis taught was that there must be at all times, whatever the normal amount of the circulation, a store ready for an emergency, so that we shall not again have to have an extended bank holiday and a banking moratorium because the printing press cannot work fast enough. If such a supply had been known to be ready at the end of July, bankers might have met the crisis with a much serener spirit. It was not their fault that the supply was lacking.

It was also clearly shown that the notion, in whoever's brain it may lurk, that the Bank Act cannot be suspended unless Bank rate stands at 10 per cent., should be stamped out once and for all. Rocket-like movements on the part of Bank rate, at a time when the public shows signs of growing uneasy, are the very worst thing that could happen. Perhaps the

question of a suspension of the Bank Act will never again arise now that the business of providing paper currency has been added by the Treasury to its own functions. Nevertheless, as it was thought necessary at the time of our latest crisis to suspend the Bank Act, in spite of the issue of Treasury notes, it is as well that it should be made quite clear that emergency legal-tender currency can be provided for the banking community without the public's nerves being startled by sensational jumps in Bank rate.

Another problem that may have to be aired when the right time comes is that of the loans of the banks to the Stock Exchange. One of the worst blows to the banks in the week before the war was the closing of the "House" and the consequent locking up of most of the funds that they had invested in Stock Exchange securities, or lent to stockbrokers against such securities, or lent to their own customers against them. All these operations are legitimate within due limits, but the lending by banks to stockbrokers seems to be the one that requires most careful watching. For a bank to invest part of its funds in good securities is an obvious means

of making a livelihood, though recent experience has shown them that it is often a costly one, when securities insist on having to be written down year after year. For a bank to make a loan to a customer with Stock Exchange securities as collateral is also natural and beneficial to both parties, and an assistance to all kinds of enterprise. It is possible, of course, that the customer may only be borrowing the money in order to indulge in extravagance or speculation, but as it is at least equally possible that he is going to use it to develop some useful enterprise, the banker is entitled to give him the benefit of the doubt.

But when a bank lends money to stockbrokers, it thereby is simply assisting speculation; it is lending to people who relend it to operators in the Stock Exchange who have bought securities and do not want to pay for them. Now speculation is not a vice in itself. It is a stupid way of losing one's money, but the speculator is quite a useful person as long as he is not given rope enough to allow him to become a danger to other people. He helps to make a free market and he provides lodgings

for new issues until such time as the real investor comes and buys them and puts them away with money that he has saved. But if there are too many speculators, there is apt to be dangerous inflation in prices and an artificial appearance of a keen demand for securities, both new and old, when in fact the appetite of the real investor is gorged.

It is a temptation to bankers to make use of their funds in this manner, for they get a better rate for them thereby than by buying bills of exchange or making loans to bill brokers. The Stock Exchange firms to which they lend are usually of first-rate standing, and the loans run only for a fortnight—from one Stock Exchange settlement to another—and so are comfortably liquid in normal times. It would be absurd to contend that such business should not be done, but it is quite possible to have too much of it.

Fortunately for the banks, they had very little of this business on their books when the crisis smote them. The Stock Exchange account had been cut down to unusually narrow limits by the slow fever of which finance had long

been sick for several miserable years. Dwindling prices, caused by the scarcity and dearness of capital, extravagant expenditure by Governments and individuals all over the world, labour troubles and the threat of more to follow, politics in America, default in Mexico, and finally the expectation of civil war in Ulster, had taken all the heart out of the speculator, and it was generally agreed by most active stockbrokers in the middle of July that they had never seen the Stock Exchange account so small, that is to say, so little stock being carried over on borrowed money. And yet, when the Stock Exchange made a careful examination, after the crisis, of its position with regard to the money that it owed to the banks and other lenders, the estimated total came to the respectable figure of 80 millions sterling. This amount is not really large when we compare it with the imposing total of the bankers' assets, of which it forms a part, and when we bear in mind that it includes advances from finance houses and others, besides the banks. Nevertheless it is big enough, especially when we remember that the banks are estimated to have also lent some

250 millions directly to their customers against Stock Exchange securities as collateral. When we also remember that it was very far below the amount that the banks lend to the Stock Exchange during times when speculative activity is normal, there is reason to think this part of the banker's business is sometimes overdone. For when the banks buy bills of exchange, or lend money to bill brokers wherewith to carry bills of exchange, they are probably financing trade; when they lend money to their own customers, they may be financing trade; when they lend money to stockbrokers wherewith to carry securities, they can only be financing speculation.

Finally, there is the good old question of the banks and their cash reserves that has been debated for years at recurring intervals and lulled to sleep with reassuring hints about a bankers' committee which is some day going to report and recommend measures. There is no need to repeat now the many statements by bank chairmen and eminent bankers that the proportion of cash to liabilities held by the banks was too low, or the strictures that have been uttered concerning the habit cherished

by some of the banks, of calling in money on occasions when they publish a statement of their position, so that the position published may be stronger than the position with which they normally work. It is true that no holding of cash which would be practically possible, if the banks are to earn a living, could have made the bankers altogether comfortable under the complicatedly unpleasant circumstances that beset them at the end of July. But it is equally true that if they had been stronger in cash they would have been more comfortable and serene, and some things might not have happened, which had been better left undone.

On the whole Lombard Street is certainly entitled to congratulate itself on the manner in which it met the crisis. If its system shivered and shook under the shock of world-wide war, that is only because world-wide war is a relapse into barbarism, and barbarism and banking are incompatible companions.

That the Stock Exchange should have to remain in a state of suspended animation, meeting in Throgmorton Street and dealing at artificially fixed prices, is a melancholy but

inevitable result of the international growth of modern finance. If the House had opened and dealings had been free, it would have been impossible to prevent our enemies from financing themselves at our expense. Who could have prevented, for example, German holders of American or Canadian securities from selling them to Dutchmen, and the Dutchmen from selling them to us? A free market was impossible on political grounds, and so, as there could not be a free market, it was necessary for the Government to intervene here again, when the moratorium ended, and to enable those who had lent money to the Stock Exchange to unlock part of the funds that were shut in behind the closed doors of Capel Court. So the Government arranged with the Bank of England to advance to lenders (other than the banks, who had already been relieved by the new currency placed at their disposal) 60 per cent. of the value of the securities held by the lenders against any Stock Exchange loans which they had outstanding on July 29, these securities being valued at the making-up prices of the July 29 settlement. The loans were to run, at 1 per

cent. above Bank rate, with a *minimum* of 5 per cent., and the Bank of England undertook not to press for repayment till twelve months after peace, or till after the expiry of the Courts (Emergency Powers) Act. This was an Act designed to protect debtors who could show that, owing directly or indirectly to the war, they were unable to meet their liabilities. It is given in full in Appendix IV.

Similar relief was given to British exporters who were embarrassed by being unable to collect debts outstanding in foreign countries and the colonies. A committee was formed representing the Treasury, the Bank of England, the joint stock banks, and the Association of Chambers of Commerce; it was empowered, after examination of claims for assistance, to authorize the applicant's banker to accept a six months' bill drawn by the trader and certified by the Committee as guaranteed. The ultimate loss, if any, is to be borne as to 75 per cent. by the Exchequer and as to 25 per cent. by the accepting bank.

A fine load of liabilities, on paper, has thus been taken by the broad shoulders of the British

taxpayer, but, unless the war lasts longer than seems likely, he need not fear that he will have a big bill to meet. A good deal of nonsense has been talked about the helplessness of finance in the face of this crisis and its dependence on Government assistance. All finance always depends on the stability of the social structure, which has to be maintained by Government. When politics go so far awry that this stability is in jeopardy, the Government has to pledge the resources of the nation to uphold the fabric of finance.

English banking has always got much of its strength from the fact that behind the banks is the Bank of England and behind the Bank of England is the Government. This the depositing public has always known dimly, and now knows very positively and practically. As long as the Government gives us peace, finance only asks it to leave it alone. When the Government finds it necessary to join in a great European war, then it has to help finance, or finance will not be able to help it. The real test of the extent to which finance had to rely on the Government will come when we see how much the taxpayer

will have to pay owing to the guarantees that the Treasury gave to finance. This sum will, I hope and believe, be a fleabite to a nation that every year pours 160 millions' worth of strong drink down its throat. It is even possible that the nation may make a profit out of the insurance fund that financiers are providing.

Lastly, let us recognize how easily and pleasantly the system works by which the Bank of England can come to everybody's assistance by giving them a credit in its books. Year in, year out, it was a marvel of ease and simplicity, when it was only called on to provide a trifle of 25 millions or so at the turn of the half-year. Now we have found that it can be expanded, to suit the taste and requirements of customers, to an extent that has never been dreamt of, without the smallest difficulty or inconvenience. Look at the figures of the Bank return of September 2 (the date on which the "other securities" in the Banking Department touched their highest point during the moratorium) as compared with those of July 15, the ast one that can be taken as normal, and unaffected by war or the fear of war :—

AN ACCOUNT pursuant to the Act 7 and 8 Vict. cap. 32, for the Week ending on Wednesday, the 15th July, 1914.

ISSUE DEPARTMENT.

	£		£
Notes Issued	56,908,235	Government Debt ...	11,015,100
		Other Securities ...	7,434,900
		Gold Coin & Bullion ...	38,458,235
		Silver Bullion ...	——
	£56,908,235		£56,908,235

BANKING DEPARTMENT.

	£		£
Proprietors' Capital ...	14,553,000	Govt. Securities ...	11,005,126
Rest	3,431,484	Other Securities ...	33,623,288
Public Deposits ...	13,318,714	Notes	27,592,980
Other Deposits ...	42,485,605	Gold and Silver Coin ...	1,596,419
7 Day and other Bills ...	29,010		
	£73,817,813		£73,817,813

J. G. NAIRNE, *Chief Cashier.*

Looking first at the figures of the Issue Department, we see that the Notes issued had risen by 8½ millions; the assets held against them showed that the Bank had ignored the suspension of the Bank Act, and still had gold against every note issued, above the statutory limit of £18,450,000. In both accounts this amount is held in securities, while in the September 2 figures the gold held has risen by

AN ACCOUNT pursuant to the Act 7 and 8 Vict. cap 32, for the Week ending on Wednesday, September 2, 1914.

ISSUE DEPARTMENT.

	£		£
Notes Issued ...	... 65,501,075	Government Debt	... 11,015,100
		Other Securities	... 7,434,900
		Gold Coin & Bullion	... 47,051,075
		Silver Bullion	——
	£65,501,075		£65,501,075

BANKING DEPARTMENT.

	£		£
Proprietor's Capital	... 14,553,000	Govt. Securities	... 28,023,971
Rest	... 3,717,666	Other Securities	... 121,820,692
Public Deposits	... 28,676,828	Notes	... 30,213,315
Other Deposits ...	133,818,826	Gold & Silver Coin	721,637
Day and other Bills	13,295		
	£180,779,615		£180,779,615

J. G. NAIRNE, *Chief Cashier.*

$8\frac{1}{2}$ millions, tallying with the increase in the notes.

In the Banking Department the most interesting features on the liabilities side are the increase of 15 odd millions in the Government balances, or public deposits, and the Gargantuan swelling of 91 millions in the other deposits, which include the bankers' balances. These increases have been produced by additions of 17 millions

to the Government securities held by the Bank on the assets side (probably caused by purchases of Treasury bills) and of no less than 88 millions to the other securities, representing the business in loans and discounts done by the Bank in fulfilling its time-honoured function as friend in need to Lombard Street.*

If capacity for variation be, as scientists tell us, the secret of strength and progress, the Bank of England, for all its weight of years, can still claim to be young and lusty as an eagle, when proved by the stress of crisis. It made an entirely new departure by, in effect, establishing offices for the receipt of gold in Canada, South Africa, and India. It bought bills, including those of the agencies of foreign banks, that it would not have looked at in ordinary times. It made advances with similar lack of prejudice. The world was rather startled to hear, on October 16, from the official liquidator of the

* The Chancellor of the Exchequer, in his speech on November 27, stated that "the total number of bills discounted on the Government guarantees has been £120,000,000. That shows that of the £350,000,000 to £500,000,000 worth of bills which were out at the outbreak of the war, most have been disposed of in the ordinary course. That is very, very satisfactory." Parliamentary Debates, Vol. 68, No. 12, p. 1530.

London agencies of the German banks that they would meet their acceptances in full (except, of course, such as were held by enemy aliens). Some said it was a wonderful evidence of their strength: I think it is more probable that here also the Bank of England had acted as fairy godmother, for the benefit of the English holders of the German banks' acceptances. It has undertaken to advance money to any holder of the new 350 millions War Loan up to the issue price of the stock. And it was ready with a supply of tea and buns for Belgian refugees who brought Belgian money to be turned into sterling.

Summing up the effects of the war, as far as it has gone, on Lombard Street, we may confidently claim that they have given a striking proof of the resourcefulness and adaptability of the Bank of England, the prudent and successful courage of the Government in pledging the national credit in order to maintain our trade, and the masterful power of England's wealth. These things are worth noting, even at a time when most of our attention is fixed on the bravery and skill of our fighting forces on sea and land.

APPENDIX I

THE GENERAL MORATORIUM

A.—Postponement of Payments Act, 1914.

[4 & 5 Geo. 5.] [Ch. 11.]

An Act to authorize His Majesty by Proclamation to suspend temporarily the payment of Bills of Exchange and payments in pursuance of other obligations. [3rd August, 1914.]

BE it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows :—

1.—(1) His Majesty may by Proclamation authorize the postponement of the payment of any bill of exchange, or of any negotiable instrument, or any other payment in pursuance of any contract, to such extent, for such time, and subject to such conditions or other provisions as may be specified in the Proclamation.

(2) No additional stamp duty shall be payable in respect of any instrument as a consequence

of any postponement of payment in pursuance of a proclamation under this Act unless the proclamation otherwise directs.

(3) Any such proclamation may be varied, extended, or revoked by any subsequent proclamation, and separate proclamations may be made dealing with separate subjects.

(4) The proclamation dated the third day of August, nineteen hundred and fourteen, relating to the postponement of payment of certain bills of exchange is hereby confirmed and shall be deemed to have been made under this Act.

2.—(1) This Act may be cited as the Postponement of Payments Act, 1914.

(2) This Act shall remain in force for a period of six months from the date of the passing thereof.

B.—PROCLAMATION OF AUGUST 6TH, 1914.

FOR EXTENDING THE POSTPONEMENT OF PAYMENTS ALLOWED TO BE MADE BY THE PROCLAMATION OF THE 2ND AUGUST, 1914, TO CERTAIN OTHER PAYMENTS.

GEORGE R.I.

WHEREAS under the Postponement of Payments Act, 1914, His Majesty has power by Proclamation

to authorize the postponement of the payment of any bill of exchange or of any negotiable instrument or of any other payment in pursuance of any contract to such extent for such time and subject to such conditions or other provisions as may be specified in the Proclamation :

And whereas it is expedient that provision should be made for the purpose of such postponement of payment in addition to the provision already made by Our Proclamation, dated the second day of August, nineteen hundred and fourteen, relating to the postponement of payment of certain bills of exchange.

NOW, THEREFORE, We have thought fit, by and with the advice of our Privy Council, to issue this Our Royal Proclamation, and We do hereby proclaim, direct, and ordain as follows :—

Save as hereinafter provided, all payments which have become due and payable before the date of this Proclamation, or which will become due and payable on any day before the beginning of the Fourth day of September, nineteen hundred and fourteen, in respect of any bill of exchange (being a cheque or bill on demand) which was drawn before the beginning of the Fourth day of August, nineteen hundred and fourteen, or in respect of any negotiable instrument (not being a bill of exchange) dated before that time, or in respect of any contract made before that time, shall be deemed to be due and

payable on a day one calendar month after the day on which the payment originally became due and payable, or on the Fourth day of September, nineteen hundred and fourteen, whichever is the later date, instead of on the day on which the payment originally became due; but payments so postponed shall, if not otherwise carrying interest, and if specific demand is made for payment and payment is refused, carry interest until payment as from the Fourth day of August, nineteen hundred and fourteen, if they become due and payable before that day, and as from the date on which they become due and payable if they become due and payable on or after that day, at the Bank of England rate current on the Seventh day of August, nineteen hundred and fourteen; but nothing in this Proclamation shall prevent payments being made before the expiration of the month for which they are so postponed.

This proclamation shall not apply to:—

(1) any payment in respect of wages or salary;

(2) any payment in respect of a liability which when incurred did not exceed five pounds in amount;

(3) any payment in respect of rates or taxes;

(4) any payment in respect of maritime freight;

(5) any payment in respect of any debt from any person resident outside the British Islands, or from any firm company or institution whose principal place of business is outside the British Islands, not being a debt incurred in the British Islands by a person, firm, company, or institution having a business establishment or branch business establishment in the British Islands ;

(6) any payment in respect of any dividend or interest payable in respect of any stocks, funds, or securities (other than real or heritable securities in which trustees, are, under Section One of the Trustee Act, 1893, or any other Act for the time being in force, authorized to invest ;

(7) any liability of a bank of issue in respect of bank notes issued by that bank ;

(8) any payment to be made by or on behalf of His Majesty or any Government Department, including the payment of old age pensions ;

(9) any payment to be made by any person or society in pursuance of the National Insurance Act, 1911, or any Act amending that Act (whether

in the nature of contributions, benefits, or otherwise);

(10) any payment under the Workmen's Compensation Act, 1906, or any Act amending the same;

(11) any payment in respect of the withdrawal of a deposit by a depositor in a trustee savings bank.

Nothing in this Proclamation shall affect any bills of exchange to which Our Proclamation dated the Second day of August, nineteen hundred and fourteen, relating to the postponement of payment of certain bills of exchange applies.

GOD SAVE THE KING.

C.—PROCLAMATION OF AUGUST 12TH, 1914.

FOR POSTPONEMENT OF PAYMENTS.

GEORGE R.I.

WHEREAS it is expedient to extend Our Proclamation, dated the sixth day of August, nineteen hundred and fourteen (relating to the postponement of payments), so as to cover bills of exchange under certain circumstances, and also payments in respect of any debt from any bank whose principal place of business is in any part of His Majesty's Dominions or any British Protectorate:

Now, therefore, We have thought fit, by and with the advice of Our Privy Council, to issue this Our Royal Proclamation, and We do hereby proclaim, direct, and ordain as follows:

Notwithstanding anything contained in the said Proclamation, dated the sixth day of August, nineteen hundred and fourteen (relating to the postponement of payments), that Proclamation shall apply, and shall be deemed always to have applied:

(*a*) to any bill of exchange which has not been re-accepted under Our Proclamation, dated the second day of August, nineteen hundred and fourteen, as it applies to a bill of exchange, being a cheque or bill on demand, unless on the presentation of the bill the acceptor has expressly refused re-acceptance thereof, but with the substitution, as respects rate of interest, of the date of the presentation of the bill for the seventh day of August, nineteen hundred and fourteen; and

(*b*) also to payments in respect of any debt from any bank whose principal place of business is in any part of His Majesty's Dominions or any British Protectorate, although the debt was not incurred in the British Islands and the bank had not a business establishment

or branch business establishment in the British Islands.

Given at Our Court at Buckingham Palace, this Twelfth day of August, in the year of our Lord One thousand nine hundred and fourteen, and in the Fifth year of Our Reign.

GOD SAVE THE KING.

D.—PROCLAMATION OF SEPTEMBER 3RD, 1914.

VARYING THE PROCLAMATIONS IN RESPECT OF THE POSTPONEMENT OF PAYMENTS DATED RESPECTIVELY THE SECOND DAY OF AUGUST, THE SIXTH DAY OF AUGUST, AND THE TWELFTH DAY OF AUGUST, AND REVOKING THE PROCLAMATION DATED THE FIRST DAY OF SEPTEMBER, NINETEEN HUNDRED AND FOURTEEN.

GEORGE R.I.

WHEREAS under the Postponement of Payments Act, 1914, We have power, by Proclamation, to authorize the postponement of the payment of any bill of exchange, or of any negotiable instrument, or any other payment in pursuance of any contract, to such extent, and for such time, and subject to such conditions or other provisions as may be specified in the Proclamation :

And whereas, in pursuance of that power, We have issued Proclamations in relation to the postponement of payments due before We were in a state of war or due in respect of contracts made before that time, dated the sixth day of August, and the twelfth day of August, nineteen hundred and fourteen ; and on the second day of August, nineteen hundred and fourteen, We also issued a Proclamation which is confirmed by the said Postponement of Payments Act, 1914, and is deemed to have been issued under that Act :

And whereas, under the said Act, We have power to vary, extend or revoke any Proclamation under that Act by a subsequent Proclamation :

And whereas it is desirable in the best interests of Our Realm at the present juncture that all persons who can discharge their liabilities should do so without delay, but it is at the same time for certain purposes expedient that Our said Proclamations should be varied, and for that purpose We issued a Proclamation dated the first day of September, nineteen hundred and fourteen :

And whereas it is expedient to revoke the last-mentioned Proclamation and to substitute therefor such variations of Our other Proclamations as are hereinafter set forth :

Now, therefore, We have thought fit, by and with the advice of Our Privy Council, to

issue this Our Royal Proclamation, and We do hereby proclaim, direct, and ordain as follows :—

1. If on the presentation for payment of a bill of exchange which has before the fourth day of September, nineteen hundred and fourteen, been re-accepted under the terms of Our said Proclamation, dated the second day of August, nineteen hundred and fourteen, the bill is not paid, then, the said Proclamation shall, in its application to that bill, have effect as if the period of two calendar months had been in the Proclamation substituted for the period of one calendar month, and the sum mentioned in the form of re-acceptance under the said Proclamation shall be deemed to be increased by the amount of interest on the original amount of the bill for one calendar month calculated at the Bank of England rate current on the date when the bill is so presented for payment as aforesaid.

2. Our said Proclamation, dated the sixth day of August, nineteen hundred and fourteen, as extended by Our said Proclamation, dated the twelfth day of August, nineteen hundred and fourteen, shall apply to payments which become due and payable on or after the fourth day of September and before the fourth day of October, nineteen hundred and fourteen (whether they become so due and payable by virtue of the said Proclamations or otherwise) in like manner as it applies to payments which became due and

payable after the date of the said first mentioned Proclamation and before the beginning of the fourth day of September, nineteen hundred and fourteen.

3. Nothing in this Proclamation shall affect the payment of interest under the Proclamations extended thereby, or prevent payments being made before the expiration of the period for which they are postponed.

4. Our said Proclamation, dated the first day of September, nineteen hundred and fourteen, is hereby revoked.

GOD SAVE THE KING.

E.—PROCLAMATION OF SEPTEMBER 30TH, 1914.

VARYING THE PROCLAMATIONS IN RESPECT OF THE POSTPONEMENT OF PAYMENTS, DATED RESPECTIVELY THE SECOND AUGUST, SIXTH AUGUST, TWELFTH AUGUST, AND THIRD SEPTEMBER, 1914.

GEORGE R.I.

WHEREAS under the Postponement of Payments Act, 1914, We have power by Proclamation to authorize the postponement of the payment of any bill of exchange or of any negotiable instrument or any other payment in pursuance

of any contract to such extent and for such time and subject to such conditions or other provisions as may be specified in the Proclamation :

AND WHEREAS in pursuance of that power We have issued Proclamations in relation to the postponement of payments due before We were in a state of war or due in respect of contracts made before that time, dated the sixth day of August, the twelfth day of August, and the third day of September, nineteen hundred and fourteen (which are respectively referred to in this Proclamation as the first, second, and third General Proclamation), and on the second day of August, nineteen hundred and fourteen, We also issued a Proclamation which is confirmed by the said Postponement of Payments Act, 1914, and is deemed to have been issued under that Act and is referred to in this Proclamation as the Bills (Re-acceptance) Proclamation :

AND WHEREAS under the Postponement of Payments Act, 1914, We have power to vary extend or revoke any Proclamation under that Act by a subsequent Proclamation :

AND WHEREAS it is desirable in the best interests of Our Realm at the present juncture that all persons who can discharge their liabilities should do so without delay, but it is at the same time expedient for the benefit of persons who cannot so discharge their liabilities that a further limited and final extension of the

postponement of payments authorized by the said Proclamations should be made :

Now, THEREFORE, We have thought fit by and with the advice of Our Privy Council to issue this Our Royal Proclamation, and We do hereby proclaim direct and ordain as follows :—

1. The first General Proclamation as extended by paragraph (*b*) of the Second General Proclamation shall, subject to the limitations of this Proclamation, apply to payments which become due and payable on or after the fourth day of October and before the fourth day of November, nineteen hundred and fourteen (whether they so become due and payable by virtue of the said Proclamations or the third General Proclamation or otherwise), in like manner as it applies to payments which became due and payable after the date of the first General Proclamation and before the beginning of the fourth day of September, nineteen hundred and fourteen.

Provided that, if the payment is one the date whereof has been postponed by virtue of any of the said General Proclamations, and is one which carries interest either by virtue of the terms of the contract or instrument under which it is due and payable or by virtue of the said General Proclamations, then the person from whom the payment is due shall not be entitled to claim the benefit of this Article unless, within

three days after the date to which the payment has been postponed by virtue of the said General Proclamations, all interest thereon up to that date is paid.

This Article shall not apply to—

(*a*) Any payment in respect of rent;

(*b*) Any payment due and payable to or by a retail trader in respect of his business as such trader.

2. The Bills (Re-acceptance) Proclamation shall continue to apply to bills of exchange (other than cheques and bills on demand) accepted before the beginning of the fourth day of August nineteen hundred and fourteen, the date of the original maturity whereof is after the third day of October.

If on the presentation for payment of any such bill the bill is not paid and is not re-accepted under the said Proclamation, then, unless on such presentation the acceptor has expressly refused re-acceptance thereof, the bill shall for all purposes, including the liability of any drawer and indorser or any other party thereto, be deemed to be due and payable on a date one calendar month after the date of its original maturity instead of on the date of its original maturity, and to be a bill for the original amount thereof increased by the amount of interest thereon, calculated from the date of the original maturity to the date of payment at the

Bank of England rate current on the date of its original maturity, and paragraph (*a*) of the second General Proclamation shall not apply to any such bill.

3. If on the presentation for payment of a bill of exchange, the date of maturity of which has before the fourth day of October nineteen hundred and fourteen become postponed either by virtue of the Bills (Re-acceptance) Proclamation or paragraph (*a*) of the second General Proclamation (whether or not the date of maturity has been further postponed by virtue of the third General Proclamation), the bill is not paid, then the date of maturity shall be deemed to be further postponed for fourteen days from the date of such presentation for payment, and the original amount of the bill shall be deemed to be further increased by the amount of interest on the original amount of the bill for fourteen days, calculated at the Bank of England rate current on the date of such presentation for payment.

4. Save as otherwise expressly provided, nothing in this Proclamation shall affect the application of the General Proclamations to payments to which those Proclamations apply, and nothing in this Proclamation shall prevent payments to which this Proclamation applies being made before the expiration of the period for which they are postponed thereunder.

GOD SAVE THE KING.

APPENDIX II

MEASURES FOR DEALING WITH BILLS OF EXCHANGE.

A.—Proclamation of Sunday, August 2nd, 1914, for Postponing the Payment of certain Bills of Exchange.

GEORGE R.I.

Whereas in view of the critical situation in Europe and the financial difficulties caused thereby it is expedient that the payment of certain bills of exchange should be postponed as appears in this Proclamation:

Now, therefore, We have thought fit, by and with the advice of Our Privy Council, to issue this Our Royal Proclamation, and We do hereby proclaim, direct, and ordain as follows:—

If on the presentation for payment of a bill of exchange, other than a cheque or bill on demand, which has been accepted before the beginning of the fourth day of August, nineteen hundred and fourteen, the acceptor re-accepts the bill by a declaration on the face of the bill in the form set out hereunder, that bill shall,

for all purposes, including the liability of any drawer or indorser or any other party thereto, be deemed to be due and be payable on a date one calendar month after the date of its original maturity instead of on the date of its original maturity, and to be a bill for the original amount thereof increased by the amount of interest thereon calculated from the date of re-acceptance to the new date of payment at the Bank of England rate current on the date of the re-acceptance of the Bill.

Form of Re-Acceptance.

Re-accepted under Proclamation for £ (*insert increased sum*).

Signature..

Date..

Given at Our Court at *Buckingham Palace*, this second day of August, in the year of our Lord one thousand nine hundred and fourteen, and in the Fifth year of Our Reign.

GOD SAVE THE KING.

B.—NOTICE PUBLISHED ON AUGUST 13th, 1914, CONCERNING THE DISCOUNTING OF BILLS BY THE BANK OF ENGLAND.

The Chancellor of the Exchequer has for several days past been in close and constant

consultation with the Governor of the Bank of England, the bankers, the accepting houses and the principal traders for the purpose of providing the country with all the banking facilities it needs in the present emergency. We are now able to announce that the Chancellor of the Exchequer has completed arrangements with the Bank of England for terminating the present deadlock in the money market and for enabling the trade and commerce of the country to resume its normal course. The greatest difficulty arose from the stoppage of remittances to London both from the provinces and from other countries not only in Europe but in all parts of the world. This caused a breakdown in the foreign exchanges and deterred bankers from discounting bills in the normal way. To overcome this difficulty as well as that of providing traders in this country with all the banking facilities they need, the Government have now agreed to guarantee the Bank of England from any loss it may incur in discounting bills of exchange either home or foreign, bank or trade, accepted prior to August 4th, 1914. Accordingly we are authorized to make the following announcement :—

"The Bank of England are prepared on the application of the holder of any approved bill of exchange accepted before the 4th day of August, 1914, to discount at any time before its due date at Bank rate without recourse to such

holder, and upon its maturity the Bank of England will in order to assist the resumption of normal business operations give the acceptor the opportunity until further notice of postponing payment, interest being payable in the meantime at 2 per cent. over Bank rate varying. Arrangements will be made to carry this scheme into effect so as to preserve all existing obligations.

The Bank of England will be prepared for this purpose to approve such bills of exchange as are customarily discounted by them and also good trade bills and the acceptances of such foreign and colonial firms and bank agencies as are established in Great Britain."

C.—Statement of the Treasury, published September 5th, 1914, concerning Advances to Acceptors by the Bank of England, etc.

The breakdown of the foreign exchanges has caused, and is still causing, very great inconvenience to traders throughout the country, and strong representations have been made to the Chancellor of the Exchequer upon the subject. It has been pointed out to him that the dislocation of exchange is exercising an extremely prejudicial influence upon trade generally, and especially

upon the foreign trade of the country, and that in the absence of the usual exchange facilities, goods can neither be imported nor exported in any appreciable quantity. To ascertain the causes and to find a remedy for the difficulties in obtaining international exchange the Chancellor of the Exchequer consulted a large number of leading traders, members of accepting houses, and bankers. After a series of conferences at the Treasury, the Chancellor of the Exchequer now wishes to announce that an arrangement has been arrived at which is designed to remove the difficulties.

Principal Features of the Scheme.

The main features of the arrangement may be summarized as follows :—

(1) The Bank of England will provide where required acceptors with the funds necessary to pay all approved pre-moratorium bills at maturity. This course will release the drawers and endorsers of such bills from their liabilities as parties to these bills, but their liability under any agreement with the acceptors for payment or cover will be retained.

(2) The acceptors will be under obligation to collect from their clients all the funds due to them as soon as possible, and to apply those funds to repayment of the advances made by the

Bank of England. Interest will be charged upon these advances at 2 per cent. above the ruling Bank rate.

(3) The Bank of England undertakes not to claim repayment of any amounts not recovered by the acceptors from their clients for a period of one year after the close of the war. Until the end of this period the Bank of England's claim will rank after claims in respect of post-moratorium transactions.

(4) In order to facilitate fresh business and the movement of produce and merchandise from and to all parts of the world the joint-stock banks have arranged, with the co-operation, if necessary, of the Bank of England and the Government, to advance to clients the amounts necessary to pay their acceptances at maturity where the funds have not been provided in due time by the clients of the acceptors. The acceptor would have to satisfy the joint-stock banks or the Bank of England both as to the nature of the transaction and as to the reason why the money is not forthcoming from the client. These advances would be on the same terms as regards interest as the pre-moratorium bill advances.

The Government is now negotiating with a view to assisting the restoration of exchange between the United States of America and this country.

APPENDIX III

MEASURES FOR PROVIDING PAPER CURRENCY.

A.—The Currency and Bank Notes Act, 1914 (4 & 5 Geo. 5).

An Act to authorize the issue of Currency Notes, and to make provision with respect to the Note Issue of Banks. [6th August, 1914.]

Be it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows :—

One Pound and Ten Shilling Currency Notes.

1.—(1) The Treasury may, subject to the provisions of this Act, issue currency notes for one pound and for ten shillings, and those notes shall be current in the United Kingdom in the same manner and to the same extent and as fully as sovereigns and half-sovereigns are current

and shall be legal tender in the United Kingdom for the payment of any amount.

(2) Currency notes under this Act shall be in such form and of such design and printed from such plate and on such paper and be authenticated in such manner as may be directed by the Treasury.

(3) The holder of a currency note shall be entitled to obtain on demand, during office hours at the Bank of England, payment for the note at its face value in gold coin which is for the time being legal tender in the United Kingdom.

(4) The Treasury may, subject to such conditions as to time, manner, and order of presentation as they think fit, call in any currency notes under this Act on paying for those notes at their face value in gold.

(5) Currency notes under this Act shall be deemed to be bank notes within the meaning of the Forgery Act, 1913,* and any other enactment relating to offences in respect of bank notes which is for the time being in force in any part of the British Islands, and to be valuable securities within the meaning of the Larceny Act, 1861,† and any other law relating to stealing which is for the time being in force in any part of the British Islands, and to be current coin of the realm for the purpose of the Acts relating to truck and any other like enactment.

* 3 & 4 Geo. 5, c. 2.

† 24 & 25 Vict. c. 96.

(6) For the purpose of meeting immediate exigencies all postal orders issued either before or after the passing of this Act shall temporarily be current and legal tender in the United Kingdom in the same manner and to the same extent and as fully as current coins, and shall be legal tender in the United Kingdom for the payment of any amount.

The holder of any such postal order shall be entitled to obtain on demand, during office hours at the Bank of England, payment for the postal order at its face value in any coin which is for the time being legal tender in the United Kingdom for the amount of the note.

Provisoes (*b*) and (*c*) to subsection (1) of section twenty-four of the Post Office Act, 1908,* shall not apply to any such postal orders.

This subsection shall have effect only until His Majesty by proclamation revokes the same, and any proclamation revoking this subsection may provide for the calling in or exchange of any postal orders affected thereby.

Issue of Currency Notes.

2. Currency notes may be issued to such persons and in such manner as the Treasury direct, but the amount of any notes issued to any

* 8 Edw. 7, c. 48.

person shall, by virtue of this Act and without registration or further assurance, be a floating charge in priority to all other charges, whether under statute or otherwise, on the assets of that person.

Authority to issue Bank Notes beyond limit.

3. The governor and company of the Bank of England and any persons concerned in the management of any Scottish or Irish bank of issue may, so far as temporarily authorized by the Treasury and subject to any conditions attached to that authority, issue notes in excess of any limit fixed by law; and those persons are hereby indemnified, freed, and discharged from any liability, penal or civil, in respect of any issue of notes beyond the amount fixed by law which has been made by them since the first day of August nineteen hundred and fourteen in pursuance of any authority of the Treasury or of any letter from the Chancellor of the Exchequer, and any proceedings taken to enforce any such liability shall be void.

Power to make Bank Notes not otherwise Legal Tender, Legal Tender in Scotland and Ireland.

4. Any bank notes issued by a bank of issue in Scotland or Ireland shall be legal tender for a

payment of any amount in Scotland or Ireland respectively, and any such bank of issue shall not be under any obligation to pay its notes on demand except at the head office of the bank, and may pay its notes, if thought fit, in currency notes issued under this Act:

Provided that notes which are legal tender under this section shall not be legal tender for any payment by the head office of the bank by whom they are issued for the purpose of the payment of notes issued by that bank.

This section shall have effect only until His Majesty by proclamation revokes the same, and any proclamation revoking this section may provide for the calling in or exchange of notes affected thereby.

Interpretation, Short Title and Extent.

5.—(1) In this Act, the expression "bank of issue" means any bank having power for the time being to issue bank notes.

(2) This Act may be cited as the Currency and Bank Notes Act, 1914.

(3) This Act shall apply to the Isle of Man as if it were part of the United Kingdom, but shall not apply to any other British possession.

B.—Explanatory Memorandum by the Treasury.

The following are the arrangements made in accordance with the provisions of the Currency and Bank Notes Act, 1914, for placing currency notes at the disposal of the Banks for meeting exceptional demands.

(1) *England and Wales.*

Currency notes are issued through the Bank of England to bankers as and when required up to a maximum limit not exceeding, in the case of any bank, 20 per cent. of its liabilities on deposit and current accounts.

The amount of notes issued to each bank is treated as an advance by the Treasury to that bank bearing interest from day to day at the current Bank rate, the security for the Treasury advance consisting of a floating charge on the assets of the bank up to the amount of the notes issued. The bank is permitted to repay the whole or any part of any advance at any time. Any amount repaid can be renewed if and when necessity arises, provided that the total amount outstanding at any one time does not exceed the authorized percentage of the bank's liabilities.

Any sums received by the Bank of England

in repayment of advances are either applied forthwith to cancelling any currency notes which have been returned from circulation and are for the time being in the hands of the Bank of England, or, in so far as any such sums may exceed the amount of currency notes returned from circulation in the hands of the Bank of England at the time of receipt, are carried to a separate account in the books of the Bank of England and applied to the cancellation of notes as and when they return from circulation.

In order to give the Banks the advantage of the credit allowed under this arrangement even though actual currency may not be required, it is proposed by the amending Bill to take power to issue certificates in lieu of actual notes.

The effect of the issue of these certificates will be that the Banks will be able to obtain credits with the Bank of England on the same terms as currency notes and the expense of printing and handling notes will be avoided except in so far as the notes may be required for actual circulation.

(2) *Scotland and Ireland.*

The arrangement in England and Wales applies generally to Scotland and Ireland; but in the case of banks of issue in Scotland and Ireland currency notes, instead of being issued

to the public, are used as cover for the banks' own notes. This arrangement has in practice the effect of enabling the Scottish and Irish banks of issue to exceed the normal limits of issue of fiduciary notes so long as such excess issues are covered by currency notes.

The new certificates will also be available for the purpose of cover for these issues.

APPENDIX IV

THE COURTS (EMERGENCY POWERS) ACT, 1914 (4 & 5 GEO. 5).

An Act to give, in connexion with the present War, further powers to Courts in relation to the remedies for the recovery of money, and in relation to other similar matters.

[31st August, 1914.]

BE it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows :—

Power of Courts to Defer Execution, &c.

1.—(1) From and after the passing of this Act no person shall—

(*a*) proceed to execution on, or otherwise to the enforcement of, any judgment or order of any court (whether entered or

made before or after the passing of this Act) for the payment or recovery of a sum of money to which this subsection applies, except after such application to such court and such notice as may be provided for by rules or directions under this Act; or

(*b*) levy any distress, take, resume, or enter into possession of any property, exercise any right of re-entry, foreclose, realize any security (except by way of sale by a mortgagee in possession), forfeit any deposit, or enforce the lapse of any policy of insurance to which this subsection applies, for the purpose of enforcing the payment or recovery of any sum of money to which this subsection applies, or, in default of the payment or recovery of any such sum of money, except after such application to such court and such notice as may be provided for by rules or directions under this Act.

This subsection shall not apply to any sum of money (other than rent not being rent at or exceeding fifty pounds per annum) due and payable in pursuance of a contract made after the beginning of the fourth day of August nineteen hundred and fourteen.

This subsection applies to life or endowment

policies for an amount not exceeding twenty-five pounds, or payments equivalent thereto, the premiums in respect of which are payable at not longer than monthly intervals, and have been paid for at least the two years preceding the fourth day of August nineteen hundred and fourteen.

(2) If, on any such application, the court to which the application is made is of opinion that time should be given to the person liable to make the payment on the ground that he is unable immediately to make the payment by reason of circumstances attributable, directly or indirectly, to the present war, the court may, in its absolute discretion, after considering all the circumstances of the case and the position of all the parties, by order, stay execution or defer the operation of any such remedies as aforesaid, for such time and subject to such conditions as the court thinks fit.

(3) Where a bankruptcy petition has been presented against any debtor, and the debtor proves to the satisfaction of the court having jurisdiction in bankruptcy that his inability to pay his debts is due to circumstances attributable, directly or indirectly, to the present war, the court may, in its absolute discretion, after considering all the circumstances of the case and the position of all the parties, at any time stay the proceedings under the petition for such time

and subject to such conditions as the court thinks fit.

(4) This Act shall apply to all proceedings for the recovery of possession of tenements under the Small Tenements Recovery Act, 1838,* as if they were in all cases proceedings for the payment or recovery of a sum of money due and payable on account of rent.

(5) The Lord Chancellor may make such rules and give such directions as he thinks fit for the purpose of giving full effect to this Act, and may, by those rules or directions, provide for any proceedings for the purposes of this Act being conducted, so far as desirable, in private and for the remission of any fees.

(6) The powers given under this Act shall be in addition to, and not in derogation of, any other powers of any court.

(7) Nothing in this Act shall affect any right or power of pawnbrokers to deal with pledges, or give any power to stay execution or defer the operation of any remedies of a creditor in the case of a sum of money payable by, or recoverable from, the subject of a Sovereign or State at war with His Majesty.

(8) Any stay of execution or of other proceedings, and any postponement of the operation of the remedies of a creditor, which has been granted or ordered by any court since the

* 1 & 2 Vict. c. 74.

commencement of the present war and before the passing of this Act shall be as valid as if this Act had been in operation when the stay or postponement was granted or ordered.

Short Title, Application, and Duration.

2.—(1) This Act may be cited as the Courts (Emergency Powers) Act, 1914.

(2) In the application of this Act to Scotland the Court of Session shall be substituted for the Lord Chancellor; "Act of Sederunt" shall be substituted for "rules"; "a petition for sequestration" shall be substituted for "a bankruptcy petition"; "diligence" shall be substituted for "execution"; and "decree" shall be substituted for "judgment or order," and shall be deemed to include any warrant authorizing diligence; "creditor in a heritable security" shall be substituted for "mortgagee"; and "proceedings in removings and ejections in the case of subjects let at a rent not exceeding twenty-one pounds" shall be substituted for "proceedings for the recovery of possession of tenements under the Small Tenements Recovery Act, 1838."

(3) In the application of this Act to Ireland the Lord Chancellor of Ireland shall be substituted for the Lord Chancellor.

(4) His Majesty may, by Order in Council,

at any time determine the operation of this Act, or provide that this Act shall have effect subject to such limitations as may be contained in the Order; but, subject to the operation of any such Order in Council, this Act shall have effect during the continuance of the present war, and for a period of six months thereafter.

APPENDIX V

THE BANK OF ENGLAND'S GOLD STOCK DURING THE MORATORIUM.

The following is a summary of the receipts of gold from abroad by the Bank during the Moratorium period, August 4 to November 4, 1914. These receipts include gold deposited abroad :—

	£
Sovereigns received	4,852,000*
Indian Gold released	3,400,000
Bar Gold bought	22,011,000
United States Gold coin bought	22,087,000
	£52,350,000

In addition to these receipts from abroad, £89,000 was returned from use at home. On the other hand, £10,500,000 was set aside by the Treasury as backing for the new Treasury notes. The net increase in the Bank's gold stock was thus £41,939,000.

* Including 3,400,000 sovereigns from Russia.

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THE END

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